

WATTS WATER TECHNOLOGIES INC

FORM 8-K (Unscheduled Material Events)

Filed 8/7/2003 For Period Ending 8/7/2003

Address	815 CHESTNUT ST NORTH ANDOVER, Massachusetts 01845
Telephone	978-688-1811
CIK	0000795403
Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported):
August 7, 2003

Watts Industries, Inc.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation)

1-11499
(Commission File
Number)

04-2916536
(I.R.S. Employer
Identification No.)

815 Chestnut Street
North Andover, MA 01845
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code:
(978) 688-1811

ITEM 7. Financial Statements, Pro Forma Financial Information and Exhibits

(c) Exhibits.

99.1 Press Release dated August 7, 2003.

ITEM 12. Results of Operations and Financial Condition

(a) On August 7, 2003, Watts Industries, Inc. issued a press release announcing its results of operations for the quarter ended June 30, 2003. A copy of the press release is attached as Exhibit 99.1 and is incorporated herein by reference.

SIGNATURES

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

WATTS INDUSTRIES, INC.

Date: August 7, 2003

By: /s/ William C. McCartney

William C. McCartney
Chief Financial Officer

EXHIBIT 99.1

FOR IMMEDIATE RELEASE Contact: William C. McCartney ----- Chief Financial Officer

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WATTS INDUSTRIES REPORTS SECOND QUARTER RESULTS

North Andover, MA...August 7, 2003. Watts Industries, Inc. (NYSE Symbol "WTS") today announced earnings for the quarter ended June 30, 2003. For the three months ended June 30, 2003, sales were \$173,512,000, an increase of \$22,007,000, or 15% from the comparable period last year. Net income for the three months ended June 30, 2003, was \$8,106,000 or \$0.30 per share, which includes a net loss from discontinued operations of \$574,000, or \$0.02 per share, compared to net income of \$8,633,000, or \$0.32 per share, for the quarter ended June 30, 2002. Income from continuing operations for the quarter ended June 30, 2003, was \$8,680,000, or \$0.32 per share, which includes \$399,000 of after-tax costs, or \$0.01 per share, incurred for the previously announced manufacturing restructuring plan. Income from continuing operations for the three months ended June 30, 2002, was \$8,633,000, or \$0.32 per share, which includes \$477,000 of after-tax costs, or \$0.02 per share, incurred for the manufacturing restructuring plan. Excluding the manufacturing restructuring costs in both periods, income from continuing operations was \$9,079,000 for the three months ended June 30, 2003, compared to \$9,110,000 for the three months ended June 30, 2002.

Sales for the six-month period ended June 30, 2003, increased 15% to \$339,204,000 from \$294,825,000 for the six-month period ended June 30, 2002. Net income for the six months ended June 30, 2003 was \$14,716,000, or \$0.54 per share, compared to \$16,689,000 for the six months ended June 30, 2002. Income from continuing operations increased \$927,000, or 6%, to \$17,616,000 for the six-month period ended June 30, 2003 compared to \$16,689,000 for the six months ended June 30, 2002. Excluding the costs incurred for the Company's manufacturing restructuring plan from both periods, income from continuing operations increased \$571,000, or 3%, to \$18,292,000, or \$0.67 per share, for the six months ended June 30, 2003 compared to \$17,721,000, or \$0.66 per share, for the six months ended June 30, 2002. Please refer to the table included at the end of this press release for a reconciliation of reported net income to adjusted income from continuing operations.

Patrick S. O'Keefe, Chief Executive Officer, commented, "We are pleased with our strong showing for the quarter. Our increase in revenue was achieved from the change in foreign exchange rates, our acquisition program and an increase in our internal growth rate. Our overall

sales in North America increased by approximately \$4,485,000, or 4%, due to our continuing gains in sales into the North American home improvement retail market and increased sales of our backflow product line which is distributed through our wholesale network. Our sales into the North American home improvement market for the quarter increased by 11%, with total sales of \$33,478,000, compared to \$30,116,000 for the second quarter of last year. Our sales into the North American wholesale market for the quarter increased 1% from the comparable period last year to \$84,684,000, primarily due to improved sales of our well-known backflow prevention product line."

Mr. O'Keefe continued, "We derived 29% of our total revenue for the quarter ended June 30, 2003, from Europe compared to 21% in the quarter ended June 30, 2002. Sales in Europe, in local currency, for the three months ended June 30, 2003, increased 31% compared to the comparable period last year due to an internal growth rate of 10% and inclusion of the acquisitions consummated during 2002. On July 15, 2002, we acquired ADEV Electronic SA located in Rosieres, France, and its closely affiliated distributor, E.K. Eminent in Gothenburg, Sweden, and on July 29, 2002, we acquired F&R Foerster Rothmann GmbH located in Neuenburg am Rhein, Germany. These European acquisitions contributed \$7,957,000 of revenue during the quarter. The euro has appreciated approximately 22% versus the quarter ended June 30, 2002, resulting in a positive impact on sales of \$7,184,000 and on earnings of \$0.02 per share in the quarter ended June 30, 2003. Our internal growth rate of 10% for sales in Europe is primarily attributable to increased shipments into the European O.E.M. market."

Mr. O'Keefe also commented, "We experienced a delay in production at our new wholly-owned bronze and brass manufacturing plant in Tianjin, China, which had an adverse effect on earnings of \$0.02 per share due to under-absorbed manufacturing costs. This delay was primarily due to the inability of the Company's foreign-based vendors to complete the installation of machine tools due to SARS related travel restrictions. We anticipate production will increase from this factory in the third quarter of 2003. The results of the quarter also include an adjustment of \$2,200,000 of revenue previously recorded at our TWT joint venture in Tianjin, which reduced earnings by \$0.02 per share in the quarter."

During the quarter ended June 30, 2003, the Company recorded an after-tax charge of \$574,000 or \$0.02 per share to discontinued operations. This charge is primarily attributable to payments made to the selling shareholders of a business that is now treated as a discontinued operation, pursuant to the Company's original purchase agreement.

On July 30, 2003, a wholly owned subsidiary of the Company acquired Giuliani Anello S.r.l. located in Cento (Ferrara) Bologna Italy, for approximately \$12 million in cash. Giuliani Anello manufactures and distributes valves and filters utilized in heating applications including strainer filters, solenoid valves, flow stop valves, stainless steel water filter elements and steam

cleaning filters. Giuliani Anello's annual revenue, prior to the acquisition, was \$7 million at the exchange rate in effect as of the closing date.

To supplement our unaudited consolidated financial statements presented on a GAAP basis, we sometimes use non-GAAP measures of net income, net income per share, income from continuing operations or income from continuing operations per share that we believe are appropriate to enhance an overall understanding of our historical financial performance and future prospects. The non-GAAP results, which are adjusted to exclude certain costs, expenses, gains and losses from the comparable GAAP measures, are an indication of our baseline performance before gains, losses or other charges that are considered by management to be outside of our core operating results. These non-GAAP results are among the primary indicators management uses as a basis for evaluating our financial performance as well as for forecasting of future periods. For these reasons, management believes these non-GAAP measures can be useful to investors, potential investors and others. The presentation of this additional information is not meant to be considered in isolation or as a substitute for net income or income per share prepared in accordance with GAAP.

This Press Release may include statements which are not historical facts and are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect Watts Industries' current views about future results of operations and other forward-looking information. You should not rely on forward-looking statements because Watts' actual results may differ materially from those indicated by these forward-looking statements as a result of a number of important factors. These factors include, but are not limited to, the following: loss of market share through competition, introduction of competing products by other companies, pressure on prices from competitors, suppliers, and/or customers, failure or delay in developing new products, lack of acceptance of new products, failure to manufacture products that meet required performance and safety standards, foreign exchange fluctuations, cyclicity of industries, such as plumbing and heating wholesalers and home improvement retailers, in which the Company markets certain of its products, reductions in the supply of raw materials, increases in the prices of raw materials, economic factors, such as the levels of housing starts and remodeling, impacting the markets where the Company's products are sold, manufactured, or marketed, environmental compliance costs, product liability risks, the results and timing of the Company's manufacturing restructuring plan, changes in the status of current litigation, including the James Jones case, and other risks and uncertainties discussed under the heading "Certain Factors Affecting Future Results" in Watts' Annual Report on Form 10-K for the year ended December 31, 2002 filed with the Securities Exchange Commission and other reports Watts files from time to time with the Securities and Exchange Commission. Watts does not intend to and undertakes no duty to update the information contained in this Press Release.

Watts Industries, Inc. designs, manufactures and sells an extensive line of valves and other products to the water quality and water regulation and control markets.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED FINANCIAL STATEMENT
(Thousands, except per share amounts)

(Unaudited)

Second Quarter Ended	June 30,	Six Months Ended	June 30,
2003	2002	2003	2002
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STATEMENTS OF INCOME

Net Sales	\$173,512	\$151,505	\$339,204	\$294,825
Income from continuing operations	\$ 8,680	\$ 8,633	\$ 17,616	\$ 16,689
Loss from discontinued operations	(574)	--	(2,900)	--
	-----	-----	-----	-----
Net income	\$ 8,106	\$ 8,633	\$ 14,716	\$ 16,689
	=====	=====	=====	=====

DILUTED EARNINGS PER SHARE

Weighted Average Number of Common Shares & Equivalents	27,471	27,172	27,352	27,048
Earnings per Share:				
Continuing operations	\$ 0.32	\$ 0.32	\$ 0.65	\$ 0.62
Discontinued operations	(0.02)	--	(0.11)	--
	-----	-----	-----	-----
Net income	\$ 0.30	\$ 0.32	\$ 0.54	\$ 0.62
	=====	=====	=====	=====
Cash dividends per share	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands, except share amounts)

	(Unaudited) June 30, 2003	December 31, 2002
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 35,293	\$ 10,973
Restricted treasuries	77,834	--
Trade accounts receivable, less allowance for doubtful accounts of \$7,997 at June 30, 2003 and \$7,322 at December 31, 2002	142,017	123,504
Inventories:		
Raw materials	44,290	40,591
Work in process	21,255	17,289
Finished goods	89,202	75,535
	-----	-----
Total Inventories	154,747	133,415
Prepaid expenses and other assets	12,599	10,732
Deferred income taxes	24,388	21,927
Net assets held for sale	2,478	2,464
	-----	-----
Total Current Assets	449,356	303,015
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment, at cost	265,722	248,933
Accumulated depreciation	(129,326)	(114,557)
	-----	-----
Property, plant and equipment, net	136,396	134,376
	-----	-----
OTHER ASSETS:		
Goodwill	169,951	163,226
Other	36,541	33,895
	-----	-----
TOTAL ASSETS	\$ 792,244	\$ 634,512
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 67,671	\$ 64,704
Accrued expenses and other liabilities	69,296	69,202
Accrued compensation and benefits	14,668	15,514
Current portion of long-term debt	87,660	82,211
	-----	-----
Total Current Liabilities	239,295	231,631
	-----	-----
LONG-TERM DEBT, NET OF CURRENT PORTION	177,128	56,276
DEFERRED INCOME TAXES	21,883	20,792
OTHER NONCURRENT LIABILITIES	21,018	19,743
MINORITY INTEREST	10,185	10,134
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.10 par value; 5,000,000 shares authorized; no shares issued or outstanding	--	--
Class A Common Stock, \$.10 par value; 80,000,000 shares authorized; 1 vote per share; issued and outstanding: 19,457,466 shares at June 30, 2003 and 18,863,482 shares at December 31, 2002	1,946	1,886
Class B Common Stock, \$.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding: 7,805,224 shares at June 30, 2003 and 8,185,224 shares at December 31, 2002	781	819
Additional paid-in capital	47,840	45,132
Retained earnings	271,323	259,893
Accumulated other comprehensive income/(loss)	845	(11,794)
	-----	-----
Total Stockholders' Equity	322,735	295,936
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 792,244	\$ 634,512
	=====	=====

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Net sales	\$ 173,512	\$ 151,505	\$ 339,204	\$ 294,825
Cost of goods sold	114,947	99,273	224,875	193,114
GROSS PROFIT	58,565	52,232	114,329	101,711
Selling, general & administrative expenses	42,111	37,138	81,965	72,365
Restructuring	114	--	114	10
OPERATING INCOME	16,340	15,094	32,250	29,336
Other (income) expense:				
Interest income	(267)	(370)	(382)	(456)
Interest expense	2,820	2,299	4,904	4,129
Other, net	(90)	(200)	(152)	(125)
Minority interest	(17)	71	(38)	106
	2,446	1,800	4,332	3,654
INCOME BEFORE INCOME TAXES	13,894	13,294	27,918	25,682
Provision for income taxes	5,214	4,661	10,302	8,993
INCOME FROM CONTINUING OPERATIONS	8,680	8,633	17,616	16,689
Loss from discontinued operations, net of taxes ..	(574)	--	(2,900)	--
NET INCOME	\$ 8,106	\$ 8,633	\$ 14,716	\$ 16,689
	=====	=====	=====	=====
BASIC EARNINGS PER SHARE				
Continuing Operations	\$ 0.32	\$ 0.32	\$ 0.65	\$ 0.63
Discontinued Operations	(0.02)	--	(0.11)	--
NET INCOME	\$ 0.30	\$ 0.32	\$ 0.54	\$ 0.63
	=====	=====	=====	=====
Weighted average number of shares	27,210	26,637	27,139	26,586
	=====	=====	=====	=====
DILUTED EARNINGS PER SHARE				
Continuing Operations	\$ 0.32	\$ 0.32	\$ 0.65	\$ 0.62
Discontinued Operations	(0.02)	--	(0.11)	--
NET INCOME	\$ 0.30	\$ 0.32	\$ 0.54	\$ 0.62
	=====	=====	=====	=====
Weighted average number of shares	27,471	27,172	27,352	27,048
	=====	=====	=====	=====
Dividends per common share	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12
	=====	=====	=====	=====

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
RECONCILIATION OF REPORTED NET INCOME TO
ADJUSTED INCOME FROM CONTINUING OPERATIONS

(Thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income	\$ 8,106	\$ 8,633	\$ 14,716	\$ 16,689
Add back: loss from discontinued operations	574	--	2,900	--
Income from continuing operations	8,680	8,633	17,616	16,689
Add back: cost of restructuring	399	477	676	1,032
Adjusted income from continuing operations	\$ 9,079	\$ 9,110	\$ 18,292	\$ 17,721
	=====	=====	=====	=====
Diluted earnings per share:				
Net income	\$ 0.30	\$ 0.32	\$ 0.54	\$ 0.62
Add back: discontinued operations	0.02	--	0.11	--
Continuing operations	0.32	0.32	0.65	0.62
Add back: cost of restructuring	0.01	0.02	0.02	0.04
Adjusted income from continuing operations	\$ 0.33	\$ 0.34	\$ 0.67	\$ 0.66
	=====	=====	=====	=====

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