

# WATTS WATER TECHNOLOGIES INC

## FORM 8-K (Current report filing)

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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

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

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**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 1, 2006

**Watts Water Technologies, Inc.**

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(Exact Name of Registrant as Specified in Charter)

Delaware

001-11499

04-2916536

-----  
(State or other juris-  
diction of incorporation)

-----  
(Commission  
File Number)

-----  
(IRS Employer  
Identification No.)

815 Chestnut Street, North Andover, MA 01845  
(Address of principal executive offices) (Zip Code)

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

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(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

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

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

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

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

**Item 2.02. Results of Operations and Financial Condition.**

On August 1, 2006, Watts Water Technologies, Inc. announced its financial results for the fiscal quarter ended July 2, 2006. The full text of the press release issued in connection with the announcement is attached as Exhibit 99.1 to this Current Report on Form 8-K.

The information in this Form 8-K and the Exhibit attached hereto shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as expressly set forth by specific reference in such a filing.

**Item 9.01. Financial Statements and Exhibits**

(c) Exhibits. The following exhibits are being furnished herewith:

Exhibit No. -----	Title -----
99.1	Press release dated August 1, 2006

## SIGNATURES

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

*Date: August 1, 2006*

*WATTS WATER TECHNOLOGIES, INC.*

*By: /s/ William C. McCartney*

*-----  
William C. McCartney*

*Chief Financial Officer*

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

Telephone: (978) 688-1811 Fax: (978) 688-2976

## **WATTS WATER TECHNOLOGIES REPORTS SECOND QUARTER 2006 RESULTS**

North Andover, MA...August 1, 2006. Watts Water Technologies, Inc. (NYSE: WTS) today announced results for the second quarter ended July 2, 2006. Sales were \$300,175,000, an increase of \$71,992,000, or 32%, compared to the second quarter of 2005. Net income for the second quarter of 2006 was \$22,446,000, or \$0.68 per share, compared to net income of \$13,913,000, or \$0.42 per share, for the second quarter of 2005. Income from continuing operations for the second quarter of 2006 increased by \$8,555,000, or 61%, to \$22,543,000, or \$0.68 per share, compared to income from continuing operations for the second quarter of 2005 of \$13,988,000, or \$0.42 per share.

The Company recorded income, net of tax, of \$3,554,000, or \$0.11 per share, in the second quarter of 2006 compared to a loss, net of tax, of \$241,000, or \$0.01 per share, in the second quarter of 2005 for its manufacturing restructuring plan. In the second quarter of 2006, the Company recorded an after tax gain of approximately \$4,100,000 related to a building sale in Italy. This gain was partially offset by after tax costs of approximately \$546,000 primarily for severance costs related to its European and Chinese restructuring plans. For the second quarter of 2005, the costs were primarily for accelerated depreciation for both the closure of a U.S. manufacturing plant and for severance costs related to the Company's European restructuring plan.

Sales for the first six months of 2006 were \$575,125,000, an increase of \$127,915,000, or 29%, compared to the first six months of 2005. Net income for the first six months of 2006 was \$37,409,000, or \$1.13 per share, versus net income of \$26,271,000, or \$0.80 per share, for the first six months of 2005. Income from continuing operations for the first six months of 2006 increased by \$11,245,000, or 43%, to \$37,630,000, or \$1.14 per share, compared to income from continuing operations for the first six months of 2005 of \$26,385,000, or \$0.80 per share.

The Company recorded income, net of tax, of \$3,405,000, or \$0.10 per share, in the first six months of 2006 compared to a loss, net of tax, of \$737,000, or \$0.02 per share, in the first six months of 2005 for its manufacturing restructuring plan. In the first six months of 2006, the Company benefited from the previously mentioned building sale in Italy. This benefit was offset by after tax costs of approximately \$695,000, or \$0.02 per share, primarily for severance costs related to the Company's European and Chinese restructuring plans. For the first six months of 2005, the costs were primarily for accelerated depreciation for both the closure of a U.S. manufacturing plant and for severance costs related to the Company's European restructuring plan.

Patrick S. O'Keefe, Chief Executive Officer, commented, "During the second quarter, the Company was able to maintain the momentum in operating performance we experienced in the first quarter of this year. Aided by acquisitions and internal growth, we again achieved record results with all segments contributing to our growth in sales and earnings. The sales increase was achieved through contributions from acquired companies of \$50,946,000, or 23%, internal growth of \$18,236,000, or 8%, and to a lesser extent from favorable changes in foreign exchange rates of \$2,810,000, or 1%. Acquired growth was primarily attributable to the December 2005 acquisitions of Core Industries Inc. (which included the FEBCO, Mueller Steam Specialty and Polyjet Valves product lines) and Dormont Manufacturing Company and the May 2006 acquisition of ATS Expansion Group.

"Sales in our North American segment increased for the second quarter of 2006 by \$51,133,000, or 33%, to \$208,249,000 compared to \$157,116,000 for second quarter of 2005. This increase was achieved through the inclusion of acquired sales totaling \$40,167,000, or 26%, internal sales growth of \$9,511,000, or 6%, and favorable foreign exchange rates of \$1,455,000, or 1%, associated with the strengthening of the Canadian dollar versus the U.S. dollar.

"Internal sales in our North American wholesale market increased 7% over the second quarter of 2005. This increase was primarily due to price increases implemented to cover recent increases in the prices of copper and other raw materials and increased unit sales of our plumbing and heating and backflow products. Internal growth in our North American home improvement retail market was 5% for the second quarter of 2006 over the second quarter of 2005. This increase was led by increased sales of under-floor radiant heating product lines.

"We derived 28% of our total sales for the second quarter of 2006 from our European segment. European sales increased \$20,221,000, or 32%, to \$83,857,000 compared to the second quarter of 2005. This increase was achieved through the inclusion of acquired sales totaling \$10,155,000, or 16%, internal growth of \$8,947,000, or 14%, and a favorable foreign exchange movement associated with the strengthening of the euro versus the US dollar of \$1,119,000, or 2%. Our internal growth in Europe was broad-based with most markets and channels exhibiting improvement. Sales growth in our OEM market and Italian wholesale market were particularly strong in the second quarter.

"China's segment sales in the second quarter of 2006 increased \$638,000, or 9%, to \$8,069,000 compared to the second quarter of 2005. This increase was achieved through the inclusion of acquired sales totaling \$624,000, or 8%, favorable foreign exchange rates associated with the yuan strengthening against the U.S. dollar of \$236,000, partially offset by a decline in internal sales of \$222,000.

Mr. O'Keefe concluded, "Our operating income for the second quarter of 2006 increased by \$14,035,000, or 58%, to \$38,236,000 as compared to \$24,201,000 in 2005. Our quarter-on-quarter restructuring costs contributed \$6,067,000, or 25%, acquisitions provided \$5,659,000, or 23%, internal growth contributed \$1,736,000, or 7%, and favorable foreign exchange movements contributed \$573,000, or 3%. Our overall margins were impacted by a favorable mix within the North American wholesale market partially offset by write-downs of our inventory carrying values of certain product lines."

Watts Water Technologies, Inc. will hold a live web cast of its conference call to discuss second quarter results for 2006 on Tuesday, August 1, 2006, at 5:00 p.m. Eastern Time. This press release and the live web cast can be accessed by visiting the Investors section of the Company's website at [www.wattswater.com](http://www.wattswater.com). Following the web cast, an archived version of the call will be available at the same address until August 1, 2007.

Watts Water Technologies, Inc. is a world leader in the manufacture of innovative products to control the efficiency, safety, and quality of water within residential, commercial, and institutional applications. Its expertise in a wide variety of water technologies enables it to be a comprehensive supplier to the water industry.

This Press Release includes statements that 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 Water Technologies' current views about future results of operations and other forward-looking information. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. 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: shortages in and pricing of raw materials and supplies including recent price increases by suppliers of raw materials and the Company's ability to pass these costs on to customers, loss of market share through competition, introduction of competing products by other companies, pressure on prices from competitors, suppliers, and/or customers, changes in variable interest rates on Company borrowings, identification and disclosure of material weaknesses in our internal control over financial reporting, failure to expand our markets through acquisitions, 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 rate fluctuations, cyclicality of industries, such as plumbing and heating wholesalers and home improvement retailers, in which the Company markets certain of its products, economic factors, such as the levels of housing starts and remodeling, affecting 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 "Item 1A. Risk Factors" in the Watts Water Technologies, Inc. Annual Report on Form 10-K for the year ended December 31, 2005 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 WATER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in thousands, except per share information)

(Unaudited)

	Second Quarter Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
STATEMENTS OF INCOME				
Net sales	\$ 300,175	\$ 228,183	\$ 575,125	\$ 447,210
Income from continuing operations	\$ 22,543	\$ 13,988	\$ 37,630	\$ 26,385
Loss from discontinued operations	(97)	(75)	(221)	(114)
Net income	\$ 22,446	\$ 13,913	\$ 37,409	\$ 26,271
	=====	=====	=====	=====
DILUTED EARNINGS PER SHARE				
Weighted Average Number of Common Shares & Equivalents	33,038	33,077	33,015	33,032
Earnings per Share:				
Continuing operations	\$ 0.68	\$ 0.42	\$ 1.14	\$ 0.80
Discontinued operations	--	--	(0.01)	--
Net income	\$ 0.68	\$ 0.42	\$ 1.13	\$ 0.80
	=====	=====	=====	=====
Cash dividends per share	\$ 0.09	\$ 0.08	\$ 0.18	\$ 0.16



**WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands, except share information)

(Unaudited)

ASSETS	July 2, 2006	December 31, 2005
	-----	-----
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents .....	\$ 109,364	\$ 45,758
Trade accounts receivable, less allowance for doubtful accounts of \$9,632 at July 2, 2006 and \$9,296 at December 31, 2005 .....	218,878	177,364
Inventories, net:		
Raw materials .....	106,148	84,087
Work in process .....	31,548	23,201
Finished goods .....	160,137	135,549
	-----	-----
Total Inventories .....	297,833	242,837
Prepaid expenses and other assets .....	20,952	25,361
Deferred income taxes .....	33,265	27,540
Assets of discontinued operations .....	8,055	9,555
	-----	-----
Total Current Assets .....	688,347	528,415
	-----	-----
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Property, plant and equipment, at cost .....	395,485	328,812
Accumulated depreciation .....	(179,991)	(163,813)
	-----	-----
Property, plant and equipment, net .....	215,494	164,999
	-----	-----
<b>OTHER ASSETS:</b>		
Goodwill .....	346,815	296,636
Other, net .....	124,312	110,920
	-----	-----
<b>TOTAL ASSETS</b> .....	<b>\$ 1,374,968</b>	<b>\$ 1,100,970</b>
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable .....	\$ 110,480	\$ 91,053
Accrued expenses and other liabilities .....	83,218	67,071
Accrued compensation and benefits .....	34,406	28,496
Current portion of long-term debt .....	7,789	13,635
Liabilities of discontinued operations .....	23,003	23,068
	-----	-----
Total Current Liabilities .....	258,896	223,323
	-----	-----
LONG-TERM DEBT, NET OF CURRENT PORTION .....	452,966	293,350
DEFERRED INCOME TAXES .....	40,280	24,803
OTHER NONCURRENT LIABILITIES .....	49,825	32,187
MINORITY INTEREST .....	7,698	7,831
	-----	-----
<b>STOCKHOLDERS' EQUITY:</b>		
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: 25,366,795 shares at July 2, 2006 and 25,205,210 shares at December 31, 2005 .....	2,537	2,521
Class B Common Stock, \$.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding: 7,293,880 shares at July 2, 2006 and 7,343,880 at December 31, 2005 .....	729	734
Additional paid-in capital .....	145,677	142,694
Retained earnings .....	399,645	368,264
Accumulated other comprehensive income .....	16,715	5,263
	-----	-----
Total Stockholders' Equity .....	565,303	519,476
	-----	-----
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> .....	<b>\$ 1,374,968</b>	<b>\$ 1,100,970</b>
	=====	=====

**WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Amounts in thousands, except per share information)

(Unaudited)

	Second Quarter Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
Net sales .....	\$ 300,175	\$ 228,183	\$ 575,125	\$ 447,210
Cost of goods sold .....	193,816	147,000	372,948	288,649
	-----	-----	-----	-----
GROSS PROFIT .....	106,359	81,183	202,177	158,561
Selling, general & administrative expenses .....	73,799	56,886	142,850	112,592
Restructuring and other charges .....	(5,676)	96	(5,441)	458
	-----	-----	-----	-----
OPERATING INCOME .....	38,236	24,201	64,768	45,511
	-----	-----	-----	-----
Other (income) expense:				
Interest income .....	(891)	(329)	(1,309)	(638)
Interest expense .....	4,952	2,567	9,144	5,088
Minority interest .....	58	72	142	137
Other .....	(986)	(90)	(1,386)	(177)
	-----	-----	-----	-----
	3,133	2,220	6,591	4,410
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES .....	35,103	21,981	58,177	41,101
Provision for income taxes .....	12,560	7,993	20,547	14,716
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS .....	22,543	13,988	37,630	26,385
Loss from discontinued operations, net of taxes .....	(97)	(75)	(221)	(114)
	-----	-----	-----	-----
NET INCOME .....	\$ 22,446	\$ 13,913	\$ 37,409	\$ 26,271
	=====	=====	=====	=====
BASIC EPS				
Income per share:				
Continuing operations .....	\$ 0.69	\$ 0.43	\$ 1.15	\$ 0.81
Discontinued operations .....	--	--	--	--
	-----	-----	-----	-----
NET INCOME .....	\$ 0.69	\$ 0.43	\$ 1.15	\$ 0.81
	=====	=====	=====	=====
Weighted average number of shares .....	32,654	32,475	32,623	32,442
	=====	=====	=====	=====
DILUTED EPS				
Income per share:				
Continuing operations .....	\$ 0.68	\$ 0.42	\$ 1.14	\$ 0.80
Discontinued operations .....	--	--	(0.01)	--
	-----	-----	-----	-----
NET INCOME .....	\$ 0.68	\$ 0.42	\$ 1.13	\$ 0.80
	=====	=====	=====	=====
Weighted average number of shares .....	33,038	33,077	33,015	33,032
	=====	=====	=====	=====
Dividends per share .....	\$ 0.09	\$ 0.08	\$ 0.18	\$ 0.16
	=====	=====	=====	=====

**WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES**  
**SEGMENT INFORMATION**  
(Amounts in thousands)

(Unaudited)

Net Sales

	Second Quarter Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
North America	\$ 208,249	\$ 157,116	404,815	\$ 304,593
Europe	83,857	63,636	156,116	130,070
China	8,069	7,431	14,194	12,547
Total	\$ 300,175	\$ 228,183	575,125	\$ 447,210
	=====	=====	=====	=====

Operating Income

	Second Quarter Ended		Six Months Ended	
	July 2, 2006	July 3, 2005	July 2, 2006	July 3, 2005
North America	\$ 25,635	\$ 20,254	48,037	\$ 38,700
Europe	15,608	7,952	25,178	15,445
China	2,397	572	3,412	1,117
Corporate	(5,404)	(4,577)	(11,859)	(9,751)
Total	\$ 38,236	\$ 24,201	64,768	\$ 45,511
	=====	=====	=====	=====