

WATER PIK TECHNOLOGIES INC
Form 10-Q
November 13, 2001

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2001

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 1-15297

WATER PIK TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

25-1843384
(IRS Employer Identification No.)

23 Corporate Plaza, Suite 246
Newport Beach, CA 92660
(Address of principal executive offices, including zip code)
Registrant's telephone number, including area code: (949) 719-3700

Indicate by check mark whether the registrant (1) has filed all reports required 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 requirements for the past 90 days. Yes No

The number of shares of Common Stock outstanding on November 9, 2001 was 12,245,677 shares.

WATER PIK TECHNOLOGIES, INC.
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PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

Water Pik Technologies, Inc.
Consolidated Balance Sheets
(In thousands, except for share and per share amounts)

| | September 30, 2001 | December 31, 2000 |
|--|-----------------------|----------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 555 | \$ 1,383 |
| Accounts receivable, less allowances for doubtful accounts of \$2,110 at September 30, 2001 and \$1,910 at December 31, 2000 | 46,975 | 62,519 |
| Inventories | 34,066 | 33,866 |
| Deferred income taxes | 4,819 | 6,877 |
| Prepaid expenses and other current assets | 2,645 | 2,284 |
| Total current assets | 89,060 | 106,929 |
| Property, plant and equipment, net | 50,919 | 42,364 |
| Cost in excess of net assets acquired, net | 18,863 | 20,109 |
| Deferred income taxes | 3,894 | 1,760 |
| Other assets | 2,441 | 2,034 |

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| | September 30, 2001 | December 31, 2000 |
|--|-----------------------|----------------------|
| Total assets | \$ 165,177 | \$ 173,196 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 20,697 | \$ 26,255 |
| Accrued income taxes | 326 | 3,284 |
| Accrued liabilities | 21,253 | 25,162 |
| Current portion of long-term debt | 303 | 5,740 |
| Total current liabilities | 42,579 | 60,441 |
| Long-term debt, less current portion | 29,602 | 36,995 |
| Other accrued liabilities | 8,083 | 9,013 |
| Total liabilities | 80,264 | 106,449 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.01 par value: 5,000,000 shares authorized; none issued | | |
| Common stock, \$0.01 par value: 50,000,000 shares authorized; 12,245,677 and 9,923,685 shares issued and outstanding at September 30, 2001 and December 31, 2000, respectively | 122 | 99 |
| Additional paid-in capital | 76,285 | 60,064 |
| Retained earnings | 15,864 | 11,399 |
| Equity adjustments due to stock plans | (6,797) | (4,314) |
| Accumulated comprehensive loss | (561) | (501) |
| Total stockholders' equity | 84,913 | 66,747 |
| Total liabilities and stockholders' equity | \$ 165,177 | \$ 173,196 |

See accompanying notes

Water Pik Technologies, Inc.
Consolidated Statements of Income
(In thousands, except for share and per share amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-------------------------------------|-------------------------------------|-----------|------------------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| Sales | \$ 75,243 | \$ 66,949 | \$ 204,892 | \$ 211,775 |
| Cost and expenses: | | | | |
| Cost of sales | 50,607 | 43,671 | 137,060 | 139,071 |
| Selling expenses | 14,108 | 11,092 | 37,685 | 35,372 |
| General and administrative expenses | 6,938 | 8,688 | 21,036 | 25,684 |
| | 71,653 | 63,451 | 195,781 | 200,127 |

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|------------------|
| | | | | |
| Income before other income and expenses | 3,590 | 3,498 | 9,111 | 11,648 |
| Interest expense | 548 | 741 | 2,398 | 2,885 |
| Other income, net | (137) | (76) | (629) | (239) |
| Income before income taxes | 3,179 | 2,833 | 7,342 | 9,002 |
| Provision for income taxes | 1,245 | 1,168 | 2,877 | 3,716 |
| Net income | \$ 1,934 | \$ 1,665 | \$ 4,465 | \$ 5,286 |
| Basic net income per common share | \$ 0.16 | \$ 0.17 | \$ 0.38 | \$ 0.55 |
| Diluted net income per common share | \$ 0.16 | \$ 0.17 | \$ 0.37 | \$ 0.55 |
| Shares used in per share calculation basic | 11,918,000 | 9,699,000 | 11,796,000 | 9,677,000 |
| Shares used in per share calculation diluted | 12,122,000 | 9,722,000 | 11,909,000 | 9,696,000 |

See accompanying notes

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Water Pik Technologies, Inc.
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|---------------|
| | 2001 | 2000 |
| Operating activities: | | |
| Net income | \$ 4,465 | \$ 5,286 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 7,011 | 7,178 |
| Deferred income taxes | (78) | 715 |
| Compensation expense arising from stock awards | 216 | 185 |
| Gain on sale of property, plant and equipment | (329) | (9) |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 15,546 | 18,013 |
| Inventories | (230) | (12,312) |
| Accounts payable | (5,554) | (5,170) |
| Accrued liabilities | (4,017) | (1,051) |
| Accrued income taxes | (2,926) | 2,041 |
| Other assets and liabilities | (2,037) | (89) |
| Cash provided by operating activities | 12,067 | 14,787 |
| Investing activities: | | |
| Purchases of businesses net of cash acquired | | (761) |

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| | Nine Months Ended September 30, | |
|--|------------------------------------|-----------------|
| Purchases of property, plant and equipment | (13,956) | (5,735) |
| Disposals of property, plant and equipment | 368 | 89 |
| Cash used in investing activities | (13,588) | (6,407) |
| Financing activities: | | |
| Net borrowings under credit facilities | (9,562) | (8,129) |
| Net payments on promissory note | (3,210) | |
| Net proceeds from common stock offering | 13,646 | |
| Principal payments on capital leases | (168) | (170) |
| Cash provided by (used in) financing activities | 706 | (8,299) |
| Effect of exchange rate changes on cash and cash equivalents | (13) | (32) |
| (Decrease) increase in cash and cash equivalents | (828) | 49 |
| Cash and cash equivalents at beginning of period | 1,383 | 1,514 |
| Cash and cash equivalents at end of period | \$ 555 | \$ 1,563 |
| Supplemental information | | |
| Cash paid during the period: | | |
| Interest | \$ 2,333 | \$ 2,995 |
| Taxes | \$ 5,564 | \$ 980 |

See accompanying notes

Water Pik Technologies, Inc.

Notes to Consolidated Financial Statements

(Unaudited)

1. Basis of Presentation

DESCRIPTION OF BUSINESS

Water Pik Technologies, Inc. ("Water Pik Technologies" or the "Company") is a leader in designing, manufacturing and marketing a broad range of well-recognized personal health care products and pool products and heating systems. The Company's products include: showerheads; oral health products; water filtration products; personal care products; home sanitizing products; pool and spa heaters, controls, valves and water features; and residential and commercial water-heating systems. Water Pik Technologies operates in two business segments Personal Health Care and Pool Products and Heating Systems.

SPIN-OFF FROM ALLEGHENY TELEDYNE INCORPORATED

Water Pik Technologies became an independent public company on November 29, 1999 when Allegheny Teledyne Incorporated, now known as Allegheny Technologies Incorporated ("ATI"), distributed all of the common stock of Water Pik Technologies to the stockholders of ATI in a tax-free transaction (the "spin-off"). Stockholders of ATI received one share of Company common stock for every 20 shares of ATI stock. Following the spin-off, ATI held no equity interest in the Company.

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Water Pik Technologies consists of the former consumer products segment of ATI, which includes the operations of the Teledyne Water Pik division with operations in the U.S. and Canada and the Teledyne Laars division with operations in the U.S. and Canada.

UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts reported in previous years have been reclassified to conform to the 2001 presentation. These reclassifications had no effect on reported results of operations or stockholders' equity. These financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for the full year ended December 31, 2001.

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or 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." SFAS No. 144 retained substantially all of the requirements of SFAS No. 121 while resolving certain implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with early application encouraged. The Company is currently evaluating the impact of the adoption of SFAS 144.

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In June 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under SFAS No. 142, goodwill will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. The absence of goodwill amortization is expected to result in an increase in net income of \$1,042,000 (\$0.09 per share) per year. The Company will perform the first of the required impairment tests of goodwill, which is classified as cost in excess of net assets acquired in the accompanying consolidated balance sheets, as of January 1, 2002 and is currently evaluating the impact of adopting SFAS No. 142.

In September 2000, the Emerging Issues Task Force (EITF) reached a final consensus on EITF Issue 00-10, "Accounting for Shipping and Handling Fees and Costs," which addresses the classification of shipping and handling costs and the related revenue. The Company adopted EITF Issue 00-10 in the fourth quarter of 2000 resulting in a reclassification of outgoing freight costs from a deduction in arriving at net sales to an expense in cost of sales. In accordance with the guidance, outgoing freight costs for all prior periods presented have been reclassified. As a result of the reclassification, sales and cost of sales for the three months ended September 30, 2000 increased \$1,795,000 to \$66,949,000 and \$43,671,000, respectively, and sales and cost of sales for the nine months ended September 30, 2000 increased \$5,792,000 to \$211,775,000 and \$139,071,000, respectively. These reclassifications had no effect on reported gross profit or results of operations.

In May 2000, the EITF reached a consensus on EITF Issue 00-14, "Accounting for Certain Sales Incentives." EITF 00-14, as amended, addresses the recognition, measurement and income statement classification for sales incentives offered voluntarily by a vendor without charge to customers that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction. The Company is required to adopt EITF Issue 00-14 by the first quarter of 2002. Management does not anticipate that the adoption of EITF Issue 00-14 will have a significant impact on the Company's consolidated results of operations, financial position or income statement classification.

In April 2001, the EITF reached a consensus on EITF Issue 00-25 "Vendor Income Statement Characterization of Consideration from a Vendor to a Retailer." This guidance requires that consideration paid by a vendor to a retailer be classified in the vendor's income statement as a reduction of revenue instead of expense unless certain criteria are met. The Company is required to adopt EITF Issue 00-25 by the first quarter of 2002. Management is currently evaluating the impact of adopting EITF Issue 00-25.

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2. Inventories

Inventories are stated at the lower of cost (last-in, first-out (LIFO) and first-in, first-out (FIFO) cost methods) or market. Inventories consist of the following:

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| | September 30, 2001 | December 31, 2000 |
|--|-----------------------|----------------------|
| <i>(In thousands)</i> | | |
| Raw materials and supplies | \$ 14,282 | \$ 12,207 |
| Work-in-process | 6,160 | 5,273 |
| Finished goods | 18,127 | 21,026 |
| | <hr/> | <hr/> |
| Total inventories at current cost | 38,569 | 38,506 |
| Less: Allowances to reduce current cost values to LIFO basis | (4,503) | (4,640) |
| | <hr/> | <hr/> |
| Total inventories | \$ 34,066 | \$ 33,866 |
| | <hr/> | <hr/> |

Inventories determined using the LIFO cost method were \$28,019,000 at September 30, 2001 and \$28,515,000 at December 31, 2000, net of the respective LIFO reserves. The remainder of inventory was determined using the FIFO cost method.

3. Long-Term Debt

Long-term debt is comprised of the following:

| | September 30, 2001 | December 31, 2000 |
|------------------------------------|-----------------------|----------------------|
| <i>(In thousands)</i> | | |
| Revolving credit facility | \$ 29,536 | \$ 36,845 |
| Canadian revolving credit facility | 178 | 2,399 |
| 8 percent promissory note | | 3,133 |
| Capitalized leases | 191 | 358 |
| | <hr/> | <hr/> |
| | 29,905 | 42,735 |
| Less: Current portion | (303) | (5,740) |
| | <hr/> | <hr/> |
| Long-term debt | \$ 29,602 | \$ 36,995 |
| | <hr/> | <hr/> |

On June 29, 2001, the Company voluntarily amended its revolving credit facility to modify certain terms of the agreement dated November 29, 1999. The agreement was modified to increase the concentration limits of eligible accounts receivable from major customers, to provide an option for the release of mortgages on real property which secure the revolving credit facility to enable financing with alternate lenders upon approval, to waive a reduction in real property and machinery and equipment availability pursuant to the completion of the required equity offering, to increase intercompany indebtedness limitations and to modify certain financial covenants. On August 9, 2001, the Company voluntarily amended the revolving credit facility to add a Company subsidiary as a guarantor and party to the security and pledge agreements under the facility.

On October 22, 2001, the Company voluntarily amended the revolving credit facility to obtain release of the mortgages on real property securing the facility and to increase the limit on letters of credit under the facility. On October 22, 2001, the Company entered into a real estate financing agreement with a bank. Borrowings under this agreement are evidenced by four term notes each secured by one of the Company's U.S. manufacturing facilities. The notes bear interest at LIBOR (London Interbank Offered Rate) plus 150 to 250 basis points per annum. The notes require monthly payments of \$69,000 plus accrued interest through August 2008 with all unpaid principal balances and accrued interest due on September 30, 2008. Proceeds of \$20,590,000, less loan origination costs, were used to repay amounts outstanding under the Company's \$60,000,000 revolving bank facility.

4. Stockholders' Equity

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On May 7, 2001, certain officers of the Company exercised their rights under the Company's Stock Acquisition and Retention Program (SARP) to acquire an aggregate of 220,892 shares of the Company's common stock for \$1,746,000 based on the average quoted market price of the shares for the ten days preceding the date of purchase. Payment for the purchased shares was in the form of full-recourse notes receivable by the Company from the officers which bear interest at 5.4 percent per annum and are payable in level monthly payments of principal and interest beginning on the fifth anniversary of the notes. The aggregate amount of notes receivable from officers related to the purchase of shares under the SARP was \$4,581,000 and \$2,835,000 as of September 30, 2001 and December 31, 2000, respectively, and is classified, along with the related interest receivable, as a reduction in stockholders' equity. Further, pursuant to the SARP, on May 7, 2001, the Company awarded one share of restricted common stock of the Company at no cost to the officers for every two shares purchased under the SARP, for a total of 110,446 shares with an aggregate market value on the date of issuance of \$873,000. The restrictions on the restricted shares lapse five years from the date of grant. The amounts are being amortized as compensation expense on a straight-line basis over the period of restrictions and the unamortized balance is classified as a reduction of stockholders' equity.

On January 3, 2001, the Company sold 1,973,685 shares of common stock at \$7.60 per share to two investment funds managed by Special Value Investment Management, LLC in a private placement. Proceeds from the offering in the amount of \$15,000,006, less \$1,354,000 in offering costs, were used for capital expenditures related to new product development activities and to repay borrowings under the Company's revolving credit facility pending their use for new product development activities and for further development of lower cost manufacturing capabilities in accordance with the amended IRS tax ruling received by ATI in connection with the spin-off. Subsequent to January 3, 2002, at the request of the purchaser, the Company has the obligation to register these shares, plus an additional 386,800 shares of common stock that the purchasers owned prior to the offering, under the Securities Act of 1933, as amended, and to pay certain registration expenses.

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5. Comprehensive Income

The components of comprehensive income were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------|------------------------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | <i>(in thousands)</i> | | | |
| Net income | \$ 1,934 | \$ 1,665 | \$ 4,465 | \$ 5,286 |
| Foreign currency translation gains (losses) | 28 | 102 | (60) | (84) |
| Comprehensive income | \$ 1,962 | \$ 1,767 | \$ 4,405 | \$ 5,202 |

6. Income Taxes

The provision for income taxes for the 2001 and 2000 interim periods was computed in accordance with FASB Interpretation No. 18, "Accounting for Income Taxes in Interim Periods," and was based on projections of total year pretax income in accordance with SFAS No. 109, "Accounting for Income Taxes." The effective income tax rate was 39.2 percent for the three months and nine months ended September 30, 2001 and 41.3 percent for the three months and nine months ended September 30, 2000. The decrease in the effective tax rate in 2001 is due to a more favorable apportionment method for state income taxes and to the identification and utilization of state tax credits and research and development credits not utilized in prior years.

7. Legal Contingencies

A number of lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, personal injury, patent infringement, commercial, employment and employee benefits. While the outcome of litigation cannot be predicted with certainty and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

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As a consumer goods manufacturer and distributor, the Company is subject to continuing risk of product liability and related lawsuits involving claims for substantial monetary damages. The Company is party to various personal injury and property damage lawsuits and claims relating to its products and other routine litigation incidental to its business. The Company has general liability, product liability and workers' compensation insurance coverage. The Company's insurance coverage provides that the Company is responsible for policy deductibles and an allocation of legal costs and expenses. Loss accruals have been recorded in accordance with SFAS No. 5, "Accounting for Contingencies" to cover the portion of liability claims not covered by insurance policies. Such accruals are based on estimates which include information provided by the Company's insurance company, claims adjusters and insurance broker, taking into account prior experience, numbers of claims, discussions with legal counsel and other relevant factors. The methods of making such estimates and establishing the resulting accrual are reviewed on a regular basis and any adjustments resulting therefrom are reflected in current operating results.

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The Company has recorded loss accruals covering the portion of lawsuits and claims not covered by insurance policies of \$8,199,000 and \$9,503,000 as of September 30, 2001 and December 31, 2000, respectively. The amount related to product and general liability lawsuits and asserted claims and incurred but not reported claims was \$7,420,000 and \$9,230,000 as of September 30, 2001 and December 31, 2000, respectively. The remaining amount relates to workers' compensation claims, both asserted and incurred but not reported.

The Tax Sharing and Indemnification Agreement between the Company and ATI provides that the Company will indemnify ATI and its directors, officers, agents and representatives for any taxes imposed on, and other amounts paid by, them or ATI's stockholders if the Company takes actions or fails to take actions that result in the spin-off not qualifying as a tax-free distribution. Pursuant to the Tax Sharing and Indemnification Agreement, the Company has agreed for a two-year period following the date of the spin-off: (i) to continue to engage in the Company's businesses; (ii) to continue to own and manage at least 50 percent of the assets owned directly or indirectly immediately after the spin-off; and (iii) not to engage in a number of specified transactions without the consent of ATI. If any of the taxes or other amounts were to become payable by the Company, the payment could have a material adverse effect on the Company's business, results of operations, financial condition and cash flow.

8. Earnings Per Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per common share is calculated by dividing net income by the sum of the weighted average number of common shares outstanding plus the dilutive effect of unvested restricted shares and outstanding stock options using the "treasury stock" method.

A reconciliation of weighted average shares outstanding, used to calculate basic net income per common share, to weighted average shares outstanding assuming dilution, used to calculate diluted net income per common share, is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2001 | 2000 | 2001 | 2000 |
| | <i>(In thousands)</i> | | | |
| Weighted average common shares outstanding basic | 11,918 | 9,699 | 11,796 | 9,677 |
| Dilutive effect of employee stock options and restricted shares | 204 | 23 | 113 | 19 |
| Weighted average common shares outstanding diluted | 12,122 | 9,722 | 11,909 | 9,696 |

9. Business Segments

The Company operates in two business segments organized around its products: Personal Health Care and Pool Products and Heating Systems. The Personal Health Care segment designs, manufactures and markets showerheads, oral health products, personal care products, home sanitizing products, water filtration products and professional dental products. The Pool Products and Heating Systems segment designs, manufactures and markets swimming pool and spa heaters, electronic controls, valves, water features and residential and commercial water-heating systems.

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Information on the Company's business segments is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------------------|-------------------------------------|----------------------|------------------------------------|-------------------|
| | 2001 | 2000 | 2001 | 2000 |
| (In thousands) | | | | |
| Sales: | | | | |
| Personal Health Care | \$ 34,197 | \$ 32,189 | \$ 90,574 | \$ 89,650 |
| Pool Products and Heating Systems | 41,046 | 34,760 | 114,318 | 122,125 |
| Total Sales | \$ 75,243 | \$ 66,949 | \$ 204,892 | \$ 211,775 |
| Operating profit: | | | | |
| Personal Health Care | \$ 237 | \$ 2,598 | \$ 1,891 | \$ 4,175 |
| Pool Products and Heating Systems | 3,353 | 900 | 7,220 | 7,473 |
| Total operating profit | 3,590 | 3,498 | 9,111 | 11,648 |
| Interest expense | 548 | 741 | 2,398 | 2,885 |
| Other income | (137) | (76) | (629) | (239) |
| Income before taxes | \$ 3,179 | \$ 2,833 | \$ 7,342 | \$ 9,002 |
| | | September 30, | December 31, | |
| | | 2001 | 2000 | |
| (In thousands) | | | | |
| Identifiable assets: | | | | |
| Personal Health Care | | \$ 69,081 | \$ 53,842 | |
| Pool Products and Heating Systems | | 85,124 | 108,867 | |
| Corporate | | 10,972 | 10,487 | |
| Total identifiable assets | | \$ 165,177 | \$ 173,196 | |

Total international sales were \$11,799,000 and \$33,947,000 for the three months and nine months ended September 30, 2001, respectively, and \$9,712,000 and \$36,177,000 for the three months and nine months ended September 30, 2000, respectively. Of these amounts, sales by operations in the United States to customers in other countries amounted to \$4,217,000 and \$12,069,000 for the three months and nine months ended September 30, 2001, respectively, and \$3,973,000 and \$14,132,000 for the three months and nine months ended September 30, 2000, respectively.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains forward-looking statements regarding future events or the future financial performance of the Company that involve certain risks and uncertainties which are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Actual events or the actual future results of the Company may differ materially from any forward-looking statement due to such risks and uncertainties.

Overview of Business

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Water Pik Technologies is a leader in designing, manufacturing and marketing of a broad range of well-recognized personal health care products and pool and water-heating products. The Company operates in two business segments: Personal Health Care and Pool Products and Heating Systems. The Personal Health Care segment designs, manufactures and markets personal health care products, including showerheads, oral health products, personal care products, home sanitizing products, water filtration products and professional dental products. The Pool Products and Heating Systems segment designs, manufactures and markets swimming pool and spa heaters, electronic controls, valves, water features and residential and commercial water-heating systems.

Total sales of the Company's two segments for the three months and nine months ended September 30, 2001 and 2000 are summarized below:

| Segment | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|-----------------------------------|-------------------------------------|---------------|------------------|---------------|------------------------------------|---------------|-------------------|---------------|
| | 2001 | | 2000 | | 2001 | | 2000 | |
| (Dollars in thousands) | | | | | | | | |
| Personal Health Care | \$ 34,197 | 45.4% | \$ 32,189 | 48.1% | \$ 90,574 | 44.2% | \$ 89,650 | 42.3% |
| Pool Products and Heating Systems | 41,046 | 54.6% | 34,760 | 51.9% | 114,318 | 55.8% | 122,125 | 57.7% |
| Total Sales | \$ 75,243 | 100.0% | \$ 66,949 | 100.0% | \$ 204,892 | 100.0% | \$ 211,775 | 100.0% |

Results of Operations

Consolidated Results of Operations

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|-----------|-------------|------------------------------------|------------|-------------|
| | 2001 | 2000 | % Change | 2001 | 2000 | % Change |
| (Dollars in thousands) | | | | | | |
| Sales | \$ 75,243 | \$ 66,949 | 12.4% | \$ 204,892 | \$ 211,775 | (3.3)% |
| Gross profit | \$ 24,636 | \$ 23,278 | 5.8% | \$ 67,832 | \$ 72,704 | (6.7)% |
| Operating profit | \$ 3,590 | \$ 3,498 | 2.6% | \$ 9,111 | \$ 11,648 | (21.8)% |
| Gross profit as a percentage of sales | 32.7% | 34.8% | | 33.1% | 34.3% | |
| Operating profit as a percentage of sales | 4.8% | 5.2% | | 4.4% | 5.5% | |
| International sales as a percentage of sales | 15.7% | 14.5% | | 16.6% | 17.1% | |

Three months ended September 30, 2001 compared to the three months ended September 30, 2000

Sales for the three months ended September 30, 2001 were \$75,243,000, representing an increase of \$8,294,000 or 12.4 percent over the comparable period in 2000, primarily due to higher sales in the Pool Products and Heating Systems segment. Gross profit (sales less cost of sales) as a percentage of sales for the three months ended September 30, 2001 decreased to 32.7 percent compared with 34.8 percent for the three months ended September 30, 2000. The decline in gross profit percentage was

due to a shift in product sales mix to lower margin pool products and heating systems and to increased inbound freight costs incurred to expedite initial orders of new sourced products in order to meet customers' required delivery dates.

Operating profit (gross profit less selling expenses and general and administrative expenses) increased \$92,000 to \$3,590,000 for the three months ended September 30, 2001 from \$3,498,000 for the three months ended September 30, 2000. The increase in gross profit of \$1,358,000 resulting from increased sales was offset by a \$1,266,000 increase in selling, general and administrative expenses. The increase in selling, general and administrative expense is due primarily to increased advertising and other selling expenses related to new product introductions partially offset by the cost reduction initiatives introduced during the first and second quarter of 2001.

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Interest expense, which relates to borrowings under the Company's credit facilities and to the promissory note issued in connection with an acquisition, decreased \$193,000 to \$548,000 for the three months ended September 30, 2001 from \$741,000 for the three months ended September 30, 2000. This decrease is primarily due to a lower weighted average interest rate on borrowings during third quarter 2001 as compared with the same period in 2000.

Nine months ended September 30, 2001 compared to the nine months ended September 30, 2000

Sales for the nine months ended September 30, 2001 were \$204,892,000, representing a decrease of \$6,883,000 or 3.3 percent over the comparable period in 2000, due to lower sales in the Pool Products and Heating Systems segment. Gross profit (sales less cost of sales) as a percentage of sales for the nine months ended September 30, 2001 decreased to 33.1 percent compared to 34.3 percent for the nine months ended September 30, 2000 due to the lower sales volume resulting in fixed manufacturing cost increasing as a percentage of sales and to higher inbound freight costs associated with the launch of new products.

Operating profit (gross profit less selling expenses and general and administrative expenses) decreased \$2,537,000 to \$9,111,000 for the nine months ended September 30, 2001 from \$11,648,000 for the nine months ended September 30, 2000. The decrease in gross profit of \$4,872,000 resulting from decreased sales was partially offset by a \$2,335,000 decrease in selling, general and administrative expenses. The improvement in selling, general and administrative expenses is primarily due to cost cutting measures implemented in 2001 partially offset by an increase in advertising and other selling expenses related to new product launches.

Interest expense decreased \$487,000 to \$2,398,000 for the nine months ended September 30, 2001 from \$2,885,000 for the nine months ended September 30, 2000. This decrease is due to a lower weighted average interest rate on borrowings during 2001 as compared to 2000 and to lower average balances outstanding under the credit facilities during the nine months ended September 30, 2001 compared to the same period in 2000 as net equity offering proceeds of \$13,646,000 were used to repay borrowings pending their use for new product development activities and for further development of lower cost manufacturing capabilities in accordance with the amended IRS tax ruling received by ATI in connection with the spin-off.

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Personal Health Care

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|-----------|-------------|------------------------------------|-----------|-------------|
| | 2001 | 2000 | % Change | 2001 | 2000 | % Change |
| | (Dollars in thousands) | | | | | |
| Sales | \$ 34,197 | \$ 32,189 | 6.2 % | \$ 90,574 | \$ 89,650 | 1.0 % |
| Operating profit | \$ 237 | \$ 2,598 | (90.9)% | \$ 1,891 | \$ 4,175 | (54.7)% |
| Operating profit as a percentage of sales | 0.7% | 8.1% | | 2.1% | 4.7% | |
| International sales as a percentage of sales | 18.2% | 16.7% | | 18.4% | 18.7% | |

Three months ended September 30, 2001 compared to the three months ended September 30, 2000

Sales in the Personal Health Care segment for the three months ended September 30, 2001 were \$34,197,000, an increase of \$2,008,000 or 6.2 percent over the comparable period in 2000. Increased showerhead sales, including sales of the Cascadia(tm) and AquaFall(tm) showerheads introduced in 2001 and the New Visions(tm) showerhead introduced in third quarter 2001, and increased consumer oral health sales were partially offset by decreases in sales of water treatment and professional oral health products.

Operating profit decreased \$2,361,000 to \$237,000 for the three months ended September 30, 2001 from \$2,598,000 for the three months ended September 30, 2000. The decrease in operating profit is primarily due to lower than expected sales growth and to increased costs associated with the introduction of new products including increased advertising, selling expenses and inbound freight costs incurred to expedite initial orders of new sourced products in order to meet customers' required delivery dates.

Nine months ended September 30, 2001 compared to the nine months ended September 30, 2000

Sales in the Personal Health Care segment for the nine months ended September 30, 2001 were \$90,574,000, an increase of \$924,000 or 1.0 percent over the comparable period in 2000, reflecting the difficult U.S. retail environment. Increased consumer oral health sales, including

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increased sales of the Water Pik(tm) flosser and oral irrigators, were partially offset by a decrease in sales of water treatment products. Sales of showerheads and professional oral health products for the nine months ended September 30, 2001 were comparable to the same period in 2000.

Operating profit decreased \$2,284,000 to \$1,891,000 for the nine months ended September 30, 2001 from \$4,175,000 for the nine months ended September 30, 2000. The decrease in operating profit is primarily due to increased advertising, selling expenses and inbound freight costs related to the introduction of new products. Additionally, research and development expenditures increased for the nine months ended September 30, 2001 as compared with the same period in 2000 due to increased patent and trademark costs related to new product and technology development activities.

Pool Products and Heating Systems

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|-------------------------------------|-----------|-------------|------------------------------------|------------|-------------|
| | 2001 | 2000 | % Change | 2001 | 2000 | % Change |
| (Dollars in thousands) | | | | | | |
| Sales | \$ 41,046 | \$ 34,760 | 18.1% | \$ 114,318 | \$ 122,125 | (6.4)% |
| Operating profit | \$ 3,353 | \$ 900 | 272.6% | \$ 7,220 | \$ 7,473 | (3.4)% |
| Operating profit as a percentage of sales | 8.2% | 2.6% | | 6.3% | 6.1% | |
| International sales as a percentage of sales | 13.6% | 12.4% | | 15.1% | 15.9% | |

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Three months ended September 30, 2001 compared to the three months ended September 30, 2000

Sales in the Pool Products and Heating Systems were \$41,046,000 for the three months ended September 30, 2001, an increase of \$6,286,000 or 18.1 percent over the comparable period of 2000. The increase in sales is primarily due to the accelerated timing of orders received under selling programs in 2001 as compared to 2000. As is customary with industry practice, the Pool Products and Heating Systems segment offers incentive programs and extended payment terms to encourage pool product customers to purchase products during the winter months to enable better utilization of manufacturing capacity.

Operating profit increased \$2,453,000 to \$3,353,000 for the three months ended September 30, 2001 from \$900,000 in the comparable period of 2000. Operating profit as a percentage of sales increased to 8.2 percent for the three months ended September 30, 2001 from 2.6 percent in the three months ended September 30, 2000. The increase in operating profit is primarily due to the increase in sales volume of pool products as well as to the positive impact of cost reduction initiatives implemented during 2001.

Nine months ended September 30, 2001 compared to the nine months ended September 30, 2000

Sales in the Pool Products and Heating Systems were \$114,318,000 for the nine months ended September 30, 2001, a decrease of \$7,807,000 or 6.4 percent over the comparable period of 2000. The decrease is primarily due to the unusually wet weather patterns in the Sunbelt states and a prolonged winter in the Northern states during the first half of 2001 and to the continuing challenging U.S. economic environment.

Operating profit decreased \$253,000 to \$7,220,000 for the nine months ended September 30, 2001 from \$7,473,000 in the comparable period of 2000. This decrease is due to the lower sales volume partially offset by the positive effect of cost reduction initiatives implemented in the first and second quarter of 2001.

Seasonality

Our business is highly seasonal, with operating results varying from quarter to quarter. The Personal Health Care segment has historically experienced higher sales in the fourth quarter of each year due to stronger retail demand during the holiday season. The Pool Products and Heating Systems segment has historically experienced higher sales in the second and fourth quarters of each year as customers purchase such products in preparation for the cooler weather and in anticipation of the warm spring and summer months. In addition, as a result of the seasonality of sales, the Pool Products and Heating Systems segment offers incentive programs and extended payment terms to encourage pool product customers to purchase products during the winter months, as is consistent with industry practice. These normal seasonal variations in operating results can also be impacted by short-term trends including changes in the economic environment and weather patterns.

Financial Condition and Liquidity

Our principal capital requirements are to fund working capital needs and capital expenditures and to meet required debt payments. We anticipate that our operating cash flow, together with available borrowings under our credit facilities described below, will be sufficient to meet our working capital requirements, capital expenditure requirements and interest service requirements on our debt obligations for at least the next 12 months.

On January 3, 2001, the Company sold 1,973,685 shares of its common stock at \$7.60 per share to two investment funds managed by Special Value Investment Management in a private placement. Proceeds from the offering in the amount of \$15,000,006, less \$1,354,000 in offering costs, were used for capital

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expenditures related to new product development activities and to repay borrowings under the revolving credit facility pending their use for new product development activities and for further development of lower cost manufacturing capabilities in accordance with the amended IRS tax ruling received by ATI in connection with the spin-off. Subsequent to January 3, 2002, at the request of the purchaser, the Company has the obligation to register these shares, plus an additional 386,800 shares of common stock that the purchasers owned prior to the offering, under the Securities Act of 1933, as amended, and to pay certain registration expenses. The transaction satisfies the requirements of the tax ruling from the Internal Revenue Service (the IRS) regarding the tax-free status of the spin-off from ATI, as amended on July 12, 2000, which required the Company to complete a \$15,000,000 equity offering by April 30, 2001.

Cash and cash equivalents decreased \$828,000 from \$1,383,000 at December 31, 2000 to \$555,000 at September 30, 2001. Cash provided by operating activities of \$12,067,000 and the net proceeds of \$13,646,000 from the issuance of common stock were used to fund capital expenditures of \$13,956,000 and for repayment of a promissory note and borrowings under the credit facilities.

Net cash provided by operating activities is primarily due to net income adjusted for depreciation and amortization and a decrease in accounts receivable partially offset by decreases in accounts payable, accrued liabilities, accrued income taxes and other liabilities. The decrease in accounts receivable is primarily due to collections on seasonally higher sales in the fourth quarter of 2000. Accounts payable decreased due to reduced purchasing in response to higher inventory levels and to cost reduction initiatives implemented during 2001. The decrease in accrued liabilities is due to the payment of customer rebates and commissions in first quarter 2001 as well as to lower accruals of rebates, commissions, cooperative advertising and warranties due to lower sales in 2001 as compared with fourth quarter 2000. Accrued income tax decreased due to the payment of federal and state income taxes in the first half of 2001.

For the nine months ended September 30, 2000, cash provided by operating activities of \$14,787,000 was used to fund capital expenditures of \$5,735,000 and to repay borrowings under the credit facilities.

The Company's working capital was \$46,481,000 at September 30, 2001 as compared to \$46,488,000 at December 31, 2000. The current ratio increased to 2.1 at September 30, 2001 from 1.8 at December 31, 2000. The improvement in the current ratio is due to decreases in accounts payable, accrued income taxes and accrued liabilities, as discussed above, and to a decrease in the current portion of long-term debt due to the repayment of the promissory note related to an acquisition and to lower borrowings under the credit facilities partially offset by a decrease in accounts receivable, as discussed above, cash and deferred income taxes.

The Company has a \$60,000,000 revolving bank credit facility that expires in November 2004. Borrowings under the facility are limited to borrowing base calculations based upon eligible accounts receivable, inventory and machinery and equipment balances. The credit facility also provides for the issuance of letters of credit up to the borrowing base less the outstanding line of credit, not to exceed \$5,000,000. In June 2001, the credit facility was amended to modify certain terms of the agreement including to increase the concentration limits of eligible accounts receivable from major customers, to provide an option for the release of mortgages on real property which secure the revolving credit facility to enable financing with alternate lenders upon approval, as necessary, to waive a reduction in real property and machinery and equipment availability pursuant to the completion of the required equity offering, to increase intercompany indebtedness limitations and to modify certain financial covenants. In October 2001, the credit facility was further amended to obtain release of the mortgages on real property securing the facility and to increase the limit on letters of credit under the facility. At September 30, 2001, there were \$29,536,000 in borrowings outstanding under the credit facility and \$16,331,000 of borrowing availability remaining under borrowing base limitations of the credit facility.

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On October 22, 2001, the Company entered into a real estate financing agreement with a bank. Borrowings under this agreement are evidenced by four term notes each secured by one of the Company's U.S. manufacturing facilities. The notes bear interest at LIBOR plus 150 to 250 basis

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points per annum. The notes require monthly payments of \$69,000 plus accrued interest through August 2008 with all unpaid principal balances and accrued interest due on September 30, 2008. Proceeds of \$20,590,000, less loan origination costs, were used to repay amounts outstanding under the Company's \$60,000,000 revolving bank facility. On October 23, 2001, there was \$25,467,000 of borrowing availability remaining under borrowing base limitations of the credit facility.

The Company's Canadian subsidiary has a CDN. \$11,000,000 revolving bank line of credit facility, increasing by CDN. \$1,000,000 for certain months of the year, a forward exchange contract facility of up to CDN. \$2,000,000 and a letter of credit facility of up to CDN. \$500,000. Borrowings under the facility are due on demand. At September 30, 2001, there were CDN. \$273,000 (US\$178,000) in borrowings outstanding under the credit facility and CDN. \$5,325,000 of borrowing availability remaining under borrowing based limitations of the credit facility.

These credit facilities require the Company to comply with various financial covenants and restrictions, including covenants and restrictions relating to indebtedness, liens, investments, dividend payments, consolidated net worth, interest coverage and the relationship of total consolidated indebtedness to earnings before interest, taxes, depreciation and amortization. A security interest in substantially all of the Company's assets was granted to the lenders under the credit agreements as collateral.

Due to the seasonality of the Company's pool products business, the extended payment term receivables offered during the winter months are collected during the spring and summer. This creates a seasonal peak in borrowing levels during the spring months.

The Company currently anticipates that no cash dividends will be paid on Water Pik Technologies common stock in order to conserve cash to fund the Company's growth. In addition, the terms of the Company's credit facilities prohibit the Company from paying dividends.

Prior to November 29, 1999 the Company participated in the general liability, product liability, and workers' compensation insurance programs sponsored by ATI. The Company has since entered into general liability, product liability and workers' compensation insurance programs of its own. Insurance coverage under these programs are subject to policy deductibles for which the Company is at risk for losses. In connection with the spin-off, the Company has agreed to indemnify ATI for losses attributable to its operations prior to the spin-off. Reserves have been established based upon existing and estimated claims and historical experience in settling such matters. As a result of the spin-off, ATI transferred to the Company reserves for estimated losses under these insurance programs totaling \$10,423,000 and related deferred taxes of \$4,882,000. During 2000 and 2001, a number of these cases were settled. The Company has recorded loss accruals covering the portion of lawsuits and claims not covered by insurance policies of \$8,199,000 and \$9,503,000 as of September 30, 2001 and December 31, 2000, respectively. The amount related to product and general liability lawsuits and asserted claims and incurred but not reported claims was \$7,420,000 and \$9,230,000 as of September 30, 2001 and December 31, 2000, respectively. The remaining amount relates to workers' compensation claims, both asserted and incurred but not reported. The actual settlements of claims under these insurance programs may differ from estimated reserves, but the possible range of loss in excess of those accrued is not reasonably estimable. Based upon currently available information, management does not believe that settlement of insurance claims will have a material adverse effect on the Company's financial condition, results of operations or liquidity although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

In connection with the spin-off, ATI received a tax ruling from the IRS stating that the spin-off would be tax-free to ATI and to ATI's stockholders. The continuing validity of the Internal Revenue Service

tax ruling, as amended on July 12, 2000, is subject to certain factual representations and assumptions, including the completion of a required offering of the Company's common stock by April 30, 2001 and use of the proceeds from the offering, less associated costs, for further development of high quality, lower cost manufacturing capabilities, for product line extensions, to expand channels of distribution, to develop a self-sustaining product development process, and for acquisitions and/or joint ventures. Pursuant to the Separation and Distribution Agreement that Water Pik Technologies signed prior to the spin-off and pursuant to the supplemental ruling issued by the IRS to ATI modifying certain requirements imposed under the prior tax ruling, the Company agreed with ATI to undertake such an offering. The January 2001 private placement fulfilled a material requirement of the ruling.

The Tax Sharing and Indemnification Agreement between ATI and Water Pik Technologies provides that the Company will indemnify ATI and its agents and representatives for taxes imposed on, and other amounts paid by, them or ATI's stockholders if the Company takes actions or fails to take actions that result in the spin-off not qualifying as a tax-free distribution. If any of the taxes or other amounts were to become payable by the Company, the payment could have a material adverse effect on the Company's business, results of operations, financial condition and cash flow and the amount the Company could be required to pay could exceed its net worth by a substantial amount.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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Reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000. There has been no significant change in the nature or amount of market risk since year-end.

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PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a)

Exhibits

- 4.1 Revolving Line of Credit Facility dated July 30, 2001 between Water Pik Technologies Canada, Inc. and BNP Paribas (Canada), as amended.
- 4.2 Amendment Agreement dated August 9, 2001 to the Restated Credit Agreement dated as of November 29, 1999, as amended, between Water Pik, Inc. and Laars, Inc., the Guarantors and Lenders named therein, and the Chase Manhattan Bank, as Agent for the Lenders.
- 10.1 Water Pik Technologies, Inc. Deferred Compensation Plan, as amended and restated effective July 1, 2001 (incorporated by reference from Exhibit 4.1 of Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (File No. 333-30016)).
- 10.2 Amendment No. 1 to the Water Pik Technologies, Inc. Deferred Compensation Plan, as amended and restated effective July 1, 2001 (incorporated by reference from Exhibit 4.2 of Post-Effective Amendment No. 1 to Registration Statement on Form S-8 (File No. 333-30016)).

(b)

Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter ended September 30, 2001 and through the date of this report.

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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, thereunto duly authorized.

WATER PIK TECHNOLOGIES, INC.

Date: November 13, 2001

By: /s/ MICHAEL P. HOOPIS

Michael P. Hoopis
President and Chief Executive Officer

Date: November 13, 2001

By: /s/ VICTOR C. STREUFERT

Victor C. Streufert
*Vice President, Finance and Chief Financial
Officer (Principal Financial and Accounting
Officer)*

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