WATTS WATER TECHNOLOGIES INC
Form 10-K
February 27, 2009

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

Or

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

Commission file number 001-11499

WATTS WATER TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	**04-2916536**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. 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**

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

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value $0.10 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ý

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 ý No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o   No ý

As of June 29, 2008, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $708,165,326 based on the closing sale price as reported on the New York Stock Exchange.

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

Class	Outstanding at February 20, 2009
Class A Common Stock, $0.10 par value per share	29,407,648 shares
Class B Common Stock, $0.10 par value per share	7,193,880 shares

DOCUMENTS INCOPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on May 13, 2009, are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. *BUSINESS.*

This Annual Report on Form 10-K contains 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 contain projections of our future results of operations or our financial position or state other forward-looking information. In some cases you can identify these forward-looking statements by 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 they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Some of the factors that might cause these differences are described under Item 1A "Risk Factors." You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and, except as required by law, we undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

In this Annual Report on Form 10-K, references to "the Company," "Watts," "we," "us" or "our" refer to Watts Water Technologies, Inc. and its consolidated subsidiaries.

Overview

Watts Regulator Co. was founded by Joseph E. Watts in 1874 in Lawrence, Massachusetts. Watts Regulator Co. started as a small machine shop supplying parts to the New England textile mills of the 19th century and grew into a global manufacturer of products and systems focused on the control, conservation and quality of water and the comfort and safety of the people using it. Watts Water Technologies, Inc. was incorporated in Delaware in 1985 and became the parent Company of Watts Regulator Co.

Our "Water by Watts" strategy is to be the leading provider of water quality, water conservation, water safety and water flow control products for the residential and commercial markets in North America and Europe and to expand our presence in Asia. Our primary objective is to grow earnings by increasing sales within existing markets, expanding into new markets, leveraging our distribution channels and customer base, making selected acquisitions, reducing manufacturing costs and advocating for the development and enforcement of industry standards.

We intend to continue to introduce products in existing markets by enhancing our preferred brands, developing new complementary products, promoting plumbing code development to drive sales of safety and water quality products and continually improving merchandising in both the do-it-yourself (DIY) and wholesale distribution channels. We continually target selected new product and geographic markets based on growth potential, including our ability to leverage our existing distribution channels. Additionally, we continually leverage our distribution channels through the introduction of new products, as well as the integration of products of our acquired companies.

We intend to continue to generate growth by targeting selected acquisitions, both in our core markets as well as new complementary markets. We have completed 32 acquisitions since divesting our industrial and oil and gas business in 1999, including one acquisition in each of 2008 and 2007 and five acquisitions in 2006. Our acquisition strategy focuses on businesses that manufacture preferred brand name products that address our themes of water quality, water safety, water conservation, water flow control and related complementary markets. We target businesses that will provide us with one or more of the following: an entry into new markets, an increase in shelf space with existing customers, strong brand names, a new or improved technology or an expansion of the breadth of our Water by Watts offerings.

We are committed to reducing our manufacturing and operating costs through a combination of manufacturing in lower-cost countries, using Lean Six Sigma to drive continuous improvement across all key processes, and consolidating our diverse manufacturing operations in North America, Europe and China. We have acquired a number of manufacturing facilities in lower-cost regions such as China, Bulgaria and Tunisia. In 2007, we announced a global restructuring plan to reduce our manufacturing footprint in order to reduce our costs and to realize additional operating efficiencies. In February 2009, we announced an additional plan to consolidate manufacturing in North America and China. See Recent Developments in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more details.

Our products are sold to wholesale distributors and dealers, major DIY chains and original equipment manufacturers (OEMs). Most of our sales are for products that have been approved under regulatory standards incorporated into state and municipal plumbing, heating, building and fire protection codes in North America and Europe. We have consistently advocated the development and enforcement of plumbing codes and are committed to providing products to meet these standards, particularly for safety and control valve products. These codes serve as a competitive barrier to entry by requiring that products sold in select jurisdictions meet stringent criteria.

Additionally, a majority of our manufacturing facilities are ISO 9000, 9001 or 9002 certified by the International Organization for Standardization.

Our business is reported in three geographic segments: North America, Europe and China. The contributions of each segment to net sales, operating income and the presentation of certain other financial information by segment are reported in Note 17 of the Notes to Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this report.

Recent Acquisitions and Disposition

On May 30, 2008, we purchased all of the outstanding share capital of Blücher Metal A/S (Blücher) located in Vildbjerg, Denmark, for approximately $183.5 million, which includes the assumption of $13.4 million of debt, net of cash acquired. Blücher is a leading provider of stainless steel drainage systems in Europe to the residential, commercial and industrial marketplaces and is a worldwide leader in providing stainless steel drainage products to the marine industry. Blücher's main products include push-fit stainless steel pipes and related fittings, light-duty drains for residential, commercial and marine applications, and drains for heavy-duty industrial applications including brewery and pharmaceutical applications.

During the second quarter of 2008, we completed the acquisition of the remaining 40% ownership of our Tianjin Tanggu Watts Valve Company Ltd. joint venture in China, known as TWT, for $3.3 million in cash. TWT manufactured products to support the U.S. operations as well as to sell into the local China market. In the third quarter of 2008, we relocated the business supporting the U.S. from TWT into an existing operation in China. We then entered into an agreement to sell TWT. Under this agreement, we determined that the risks and rewards of ownership of TWT were effectively transferred to the buyer as of October 18, 2008. We further determined that we were no longer the primary beneficiary of the operating results of TWT and therefore had deconsolidated TWT as of the agreement date. As the equity transfer from us to the buyer has not yet been approved by local authorities, we deferred a $1.1 million gain from the sale. We expect to recognize the gain during 2009, upon final approval of the transfer by Chinese government authorities. The deferred gain has been recorded as a current liability in the accompanying Consolidated Balance Sheet.

On November 9, 2007, we acquired the assets and business of Topway Global Inc. (Topway) located in Brea, California for approximately $18.4 million. Topway manufactures a wide variety of water softeners, point of entry filter units, and point of use drinking water systems for residential, commercial and industrial applications.

Products

We believe that we have the broadest range of products in terms of design distinction, size and configuration in a majority of our principal product lines. In 2008 and 2007, water quality products accounted for approximately 17% and 18%, respectively, of our total sales. Our principal product lines include:

- water quality products, including backflow preventers and check valves for preventing reverse flow within water lines and fire protection systems and point-of-use water filtration and reverse osmosis systems for both commercial and residential applications;
- a wide range of water pressure regulators for both commercial and residential applications;
- drainage products for industrial, commercial, marine and residential applications;
- water supply products for commercial and residential applications;
- temperature and pressure relief valves for water heaters, boilers and associated systems;
- thermostatic mixing valves for tempering water in commercial and residential applications;
- systems for under-floor radiant applications and hydraulic pump groups for gas boiler manufacturers and renewable energy applications, including solar and heat pump control packages;
- flexible stainless steel connectors for natural and liquid propane gas in commercial food service and residential applications; and
- large diameter butterfly valves for use in China's water infrastructure.

Customers and Markets

We sell our products to plumbing, heating and mechanical wholesale distributors, major DIY chains and OEMs.

Wholesalers. Approximately 65% of our sales in both 2008 and 2007 were to wholesale distributors for both commercial and residential applications. We rely on commissioned manufacturers' representatives, some of which maintain a consigned inventory of our products, to market our product lines. Additionally, various water quality products are sold to independent dealers throughout North America.

DIY. Approximately 13% and 15% of our sales in 2008 and 2007, respectively, were to DIY customers. Our DIY customers demand less technical products, but are highly receptive to innovative designs and new product ideas.

OEMs. Approximately 22% and 20% of our sales in 2008 and 2007, respectively, were to OEMs. In North America, our typical OEM customers are water heater manufacturers, equipment manufacturers needing flow control devices and water systems manufacturers needing backflow preventers. Our sales to OEMs in Europe are primarily to boiler manufacturers, and radiant systems manufacturers. Our sales to OEMs in China are primarily to boiler and bath manufacturers including manufacturers of faucet and shower products.

In both 2008 and 2007, no customer accounted for more than 10% of our total net sales. Our top ten customers accounted for approximately $293.9 million, or 20%, of our total net sales in 2008 and $304.3 million, or 22%, of our total net sales in 2007. Thousands of other customers constituted the remaining 80% of our net sales in 2008 and 78% of our net sales in 2007.

Marketing and Sales

We rely primarily on commissioned manufacturers' representatives, some of which maintain a consigned inventory of our products. These representatives sell primarily to plumbing and heating wholesalers or service DIY store locations in North America. We also sell products for the residential construction and home repair and remodeling industries through DIY plumbing retailers, national catalog distribution companies, hardware stores, building material outlets and retail home center chains and through plumbing and heating wholesalers. In addition, we sell products directly to certain large OEMs and private label accounts.

Manufacturing

We have integrated and automated manufacturing capabilities, including a bronze foundry, machining, plastic extrusion and injection molding and assembly operations. Our foundry operations include metal pouring systems, automatic core making, yellow brass forging and brass and bronze die-castings. Our machining operations feature computer-controlled machine tools, high-speed chucking machines with robotics and automatic screw machines for machining bronze, brass and steel components. We have invested heavily in recent years to expand our manufacturing capabilities and to ensure the availability of the most efficient and productive equipment. We are committed to maintaining our manufacturing equipment at a level consistent with current technology in order to maintain high levels of quality and manufacturing efficiencies.

Capital expenditures and depreciation for each of the last three years were as follows:

	Years Ended December 31,		
	2008	**2007**	**2006**
		(in millions)	
Capital expenditures	$26.6	$37.8	$44.7
Depreciation	$31.8	$28.9	$26.7

The Company's 2006 capital expenditures included approximately $18.0 million related to the purchase and subsequent sale-leaseback of a building in Italy.

Raw Materials

We require substantial amounts of raw materials to produce our products, including bronze, brass, cast iron, steel and plastic, and substantially all of the raw materials we require are purchased from outside sources. We had experienced increases in the costs of certain raw materials, particularly copper. Bronze and brass are copper-based alloys. Through July 3, 2008, copper prices rose significantly from demands in the worldwide marketplace. The spot price of copper, which was $4.08 at July 3, 2008, had increased approximately 186% from December 2005. In response, we implemented price increases for some of our products that had become more expensive to manufacture due to the increases in raw material costs. During 2007 and 2006, cost increases in raw materials were not completely recovered by increased selling prices or other product cost reductions. During the latter half of 2008, commodity prices, including copper, decreased significantly as most industrialized and emerging economies began experiencing economic recessions. The spot price of copper at December 31, 2008 was $1.32. We are not able to predict whether commodity costs, including copper, will significantly increase or decrease in the future. If commodity costs increase in the future and we are not able to reduce or eliminate the effect of the cost increases by reducing production costs or implementing price increases, our profit margins could decrease. If commodity costs continue to decline, we may experience pressures from customers to reduce our selling prices. The timing of any price reductions and decreases in commodity costs may not align. Therefore, our near-term margins in 2009 could decline.

Code Compliance

Products representing a majority of our sales are subject to regulatory standards and code enforcement which typically require that these products meet stringent performance criteria. Standards are established by such industry test and certification organizations as the American Society of Mechanical Engineers (A.S.M.E.), the Canadian Standards Association (C.S.A.), the American Society of Sanitary Engineers (A.S.S.E.), the University of Southern California Foundation for Cross-Connection Control (USC FCC), the International Association of Plumbing and Mechanical Officials (I.A.P.M.O.), Factory Mutual (F.M.), the National Sanitation Foundation (N.S.F.) and Underwriters Laboratory (U.L.). Many of these standards are incorporated into state and municipal plumbing and heating, building and fire protection codes.

National regulatory standards in Europe vary by country. The major standards and/or guidelines which our products must meet are AFNOR (France), DVGW (Germany), UNI/ICIN (Italy), KIWA (Netherlands), SVGW (Switzerland), SITAC (Sweden) and WRAS (United Kingdom). Further, there are local regulatory standards requiring compliance as well.

Together with our commissioned manufacturers' representatives, we have consistently advocated for the development and enforcement of plumbing codes. We maintain stringent quality control and testing procedures at each of our manufacturing facilities in order to manufacture products in compliance with code requirements.

We believe that product-testing capability and investment in plant and equipment is needed to manufacture products in compliance with code requirements. Additionally, a majority of our manufacturing facilities are ISO 9000, 9001 or 9002 certified by the International Organization for Standardization.

New Product Development and Engineering

We maintain our own product development staff, design teams, and testing laboratories in North America, Europe and China that work to enhance our existing products and develop new products. We maintain sophisticated product development and testing laboratories. Research and development costs included in selling, general, and administrative expense amounted to $17.5 million, $15.1 million and $12.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

California and Vermont recently enacted laws that will require beginning on January 1, 2010 that all pipes, pipe and plumbing fittings and plumbing fixtures sold in those states that convey or dispense water for human consumption contain virtually no lead content. Other states, including Maryland, are currently considering similar legislation and we expect that similar laws will be adopted in other states in the future. We have invested considerable resources over the past several years to develop lead free versions of our plumbing products to comply with these new laws. We expect that our lead free product offerings will be available for sale by the fourth quarter of 2009, which should allow our customers in California and Vermont time to manage their inventories of our products to prepare for the January 1, 2010 implementation date of the new lead free standards.

Competition

The domestic and international markets for water safety and flow control devices are intensely competitive and require us to compete against some companies possessing greater financial, marketing and other resources than ours. Due to the breadth of our product offerings, the number and identities of our competitors vary by product line and market. We consider brand preference, engineering specifications, plumbing code requirements, price, technological expertise, delivery times and breadth of product offerings to be the primary competitive factors. We believe that new product development and product engineering are also important to success in the water industry and that our position in the industry is attributable in part to our ability to develop new and innovative products quickly and to adapt and enhance existing products. We continue to develop new and innovative products to enhance

market position and are continuing to implement manufacturing and design programs to reduce costs. We cannot be certain that our efforts to develop new products will be successful or that our customers will accept our new products. Although we own certain patents and trademarks that we consider to be of importance, we do not believe that our business and competitiveness as a whole are dependent on any one of our patents or trademarks or on patent or trademark protection generally.

Backlog

Backlog was approximately $94.8 million at February 13, 2009 and was approximately $116.8 million at February 15, 2008. We do not believe that our backlog at any point in time is indicative of future operating results.

Employees

As of December 31, 2008, our wholly-owned domestic and foreign operations employed approximately 6,300 people. None of our employees in North America or China are covered by collective bargaining agreements. In some European countries our employees are subject to traditional national collective bargaining agreements. We believe that our employee relations are good.

Available Information

We maintain a website with the address *www.wattswater.com*. The information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor's own internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the Securities and Exchange Commission.

Certifications

Our Chief Executive Officer and Chief Financial Officer have provided the certifications required by rule 13a-14(a) under the Securities Exchange Act of 1934, copies of which are filed as exhibits to this Annual Report on Form 10-K. In addition, an annual chief executive officer certification was submitted by our Chief Executive Officer to the New York Stock Exchange on May 19, 2008 in accordance with the New York Stock Exchange listing requirements.

Executive Officers and Directors

Set forth below are the names of our executive officers and directors, their respective ages and positions with our Company and a brief summary of their business experience for at least the past five years:

Name	Age	Position
Patrick S. O'Keefe	56	Chief Executive Officer, President and Director
William C. McCartney	54	Chief Financial Officer and Treasurer
J. Dennis Cawte	58	Group Managing Director, Europe
David J. Coghlan	49	President of North America and Asia
Ernest E. Elliott	57	Executive Vice President of Marketing
Michael P. Flanders	50	Executive Vice President of Manufacturing Operations, North America and Asia
Josh C. Fu	52	President, Asia
Kenneth R. Lepage	38	General Counsel and Secretary
Gregory J. Michaud	47	Executive Vice President of Human Resources
Taylor K. Robinson	45	Executive Vice President of Supply Chain Management
Douglas T. White	64	Group Vice President
Robert L. Ayers(1)(3)	63	Director
Kennett F. Burnes(1)(3)	66	Director
Richard J. Carthcart(2)	64	Director
Timothy P. Horne	70	Director
Ralph E. Jackson Jr.(2)(3)	67	Director
Kenneth J. McAvoy(1)(3)	68	Director
John K. McGillicuddy(1)	65	Director
Gordon W. Moran(2)(3)	70	Non-Executive Chairman of the Board and Director
Daniel J. Murphy, III(2)(3)	67	Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Nominating and Corporate Governance Committee

Patrick S. O'Keefe joined our Company in 2002. Prior to joining our Company, he served as President, Chief Executive Officer and Director of Industrial Distribution Group, a supplier of maintenance, repair, operating and production products, from 1999 to 2001. He was Chief Executive Officer of Zep Manufacturing, a unit of National Service Industries and a manufacturer of specialty chemicals throughout North America, Europe and Australia, from 1997 to 1999. He also held various senior management positions with Crane Co. from 1994 to 1997.

William C. McCartney joined our Company in 1985 as Controller. He was appointed our Vice President of Finance in 1994 and served as our Corporate Controller from 1988 to 1999. He was

appointed Chief Financial Officer and Treasurer in 2000. He served as Secretary of the Company from January 2000 to November 2005.

J. Dennis Cawte joined our Company in 2001 and was appointed Group Managing Director Europe. Prior to joining our Company, he was European President of PCC Valve and Controls, a division of Precision Castparts Corp., a manufacturer of components and castings to the aeronautical industry, from 1999 to 2001. He had also worked for approximately 20 years for Keystone Valve International, a manufacturer and distributor of industrial valves, where his most recent position was the Managing Director Northern Europe, Middle East, Africa and India.

David J. Coghlan joined our Company in June 2008 as President of North America and Asia. Prior to joining our Company, Mr. Coghlan served as Vice President, Global Parts of Trane Inc., a global manufacturer of commercial and residential heating, ventilation and air conditioning equipment, from April 2004 through May 2008. He also held several management positions within the Climate Control Technologies segment of Ingersoll-Rand Company Limited, a manufacturer of transport temperature control units and refrigerated display merchandisers, from 1995 to December 2003. Before joining Ingersoll-Rand, Mr. Coghlan worked for several years with the management consulting firm of McKinsey & Co. in both the United Kingdom and United States.

Ernest E. Elliott joined our Company in 1986 and has served in a variety of sales and marketing roles. He was appointed Vice President of Sales in 1991, served as Executive Vice President of Wholesale Sales and Marketing from 1996 to March 2003, Executive Vice President of Wholesale Marketing from March 2003 to February 2006 and as Executive Vice President of Marketing since February 2006. Mr. Elliott temporarily assumed responsibilities of our former Chief Operating Officer and President of North American and Asian Operations in September 2007. Prior to joining our Company, he was Vice President of BTR Inc.'s Valve Group, a diversified manufacturer of industrial and commercial valve products.

Michael P. Flanders joined our Company in October 2007 as Executive Vice President of Manufacturing Operations, North America and Asia. From August 2005 to July 2007, he served as President and Chief Operating Officer of Aavid Thermalloy, LLC, an international manufacturing company providing thermal management solutions to the computer and electronics industries. From July 2003 to April 2005, he was Vice President and General Manager of Waukesha Bearings Corporation, a manufacturer of hydrodynamic and active magnetic bearings and a subsidiary of Dover Corporation. From November 1998 to July 2003, he was General Manager of the LCN Division of Ingersoll-Rand Company Limited, which manufactured mechanical and electronic door control products.

Josh C. Fu joined our Company in January 2008 as President, Asia. From January 2007 to December 2007, he served as President and Chief Executive Officer of Reradiant International Co. Ltd., a consulting firm focused on the energy and industrial goods industries. From August 2004 to December 2006, he served as President of the China operations of Flowserve Corporation, a global manufacturer of flow control equipment, including valves, pumps, and seals. From July 2003 to August 2004, he was Executive Vice President, Product Development and Merchandise Sourcing for Intercon Merchandise Sourcing, an importer of consumer goods from China. From 2000 to 2003, he held various senior management positions with the China operations of BP p.l.c., a worldwide petroleum and petrochemicals company.

Kenneth R. Lepage was appointed General Counsel and Secretary of the Company in August 2008. Mr. Lepage originally joined our Company in September 2003 as Assistant General Counsel and Assistant Secretary. Prior to joining our Company, he was a junior partner at the law firm of Hale and Dorr LLP (now Wilmer Cutler Pickering Hale and Dorr LLP).

Gregory J. Michaud joined our Company in April 2006 as Executive Vice President of Human Resources. Prior to joining our Company, he served as Vice President, Human Resources of the

Compact Equipment division of Ingersoll-Rand Company Limited, a diversified industrial company, from June 2003 through March 2006. He served as Vice President, Human Resources of the Productivity Solutions division of Ingersoll-Rand from January 2003 to June 2003 and as Director, Human Resources & Corporate Organizational Planning of Ingersoll-Rand from June 2000 to December 2002.

Taylor K. Robinson joined our Company in September 2007 as Executive Vice President of Supply Chain Management. From January 2007 to August 2007, he owned and operated a consulting company named Global Supply Chain Solutions, which provided advice to international clients to improve their global supply chain methods and operations. From February 2004 to April 2006, he was Chief Procurement Officer for H.J. Heinz Company, an international manufacturer and marketer of processed foods. From January 1999 to January 2004, he served in various positions for Honeywell International Inc., a diversified technology and manufacturing company, including Global Supply Chain Director, Aviation Aftermarket Services, Director of Global Sourcing, Aerospace Electronic Systems and Corporate Director of Global Commodity Management Electronics.

Douglas T. White joined our Company in 2001 as Group Vice President. Prior to joining our Company he was employed by Honeywell International, Inc., a diversified technology and manufacturing company, as Vice President of Marketing Consumer Products Group from 1998 to 2001.

Robert L. Ayers has served as a director of our Company since October 2006. He was Senior Vice President of ITT Industries and President of ITT Industries' Fluid Technology from October 1999 until September 2005. Mr. Ayers continued to be employed by ITT Industries from September 2005 until his retirement in September 2006, during which time he focused on special projects for the company. Mr. Ayers joined ITT Industries in 1998 as President of ITT Industries' Industrial Pump Group. Before joining ITT Industries, he was President of Sulzer Industrial USA and Chief Executive Officer of Sulzer Bingham, a pump manufacturer. He is a director of T-3 Energy Services, Inc.

Kennett F. Burnes became a director of our Company in February 2009. Mr. Burnes is the retired Chairman, President and Chief Executive Officer of Cabot Corporation, a global specialty chemicals company. He was Chairman from 2001 to March 2008, President from 1995 to January 2008 and Chief Executive Officer from 2001 to January 2008. Prior to joining Cabot Corporation in 1987, Mr. Burnes was a partner at the Boston-based law firm of Choate, Hall & Stewart, where he specialized in corporate and business law for nearly 20 years. He is a director of State Street Corporation, a member of the Dana Farber Cancer Institute's Board of Trustees and a board member of the New England Conservatory. Mr. Burnes is also Chairman of the Board of Trustees of the Schepens Eye Research Institute.

Richard J. Cathcart has served as a director of our Company since October 2007. He was Vice Chairman and a member of the Board of Directors of Pentair, Inc. from February 2005 until his retirement in September 2007. Pentair is a diversified manufacturing company consisting of two operating segments: Water Technologies and Technical Products. He was appointed President and Chief Operating Officer of Pentair's Water Technologies Group in January 2001 and served in that capacity until his appointment as Vice Chairman in February 2005. He began his career at Pentair in March 1995 as Executive Vice President, Corporate Development, where he identified water as a strategic area of growth. In February 1996, he was named Executive Vice President and President of Pentair's Water Technologies Group. Prior to joining Pentair, he held several management and business development positions during his 20-year career with Honeywell International Inc. He is a director of Fluidra S.A.

Timothy P. Horne has served as a director of our Company since 1962. He became an employee of our Company in 1959 and served as our President from 1976 to 1978, from 1994 to 1997 and from 1999 to 2002. He served as our Chief Executive Officer from 1978 to 2002, and he served as Chairman of our Board of Directors from 1986 to 2002. He retired as an employee of our Company on December 31, 2002. Since his retirement, he has continued to serve our Company as a consultant.

Ralph E. Jackson, Jr. has served as a director of our Company since 2004. He worked for Cooper Industries, Inc., a manufacturer of electrical products, from 1985 until his retirement in December 2003. Prior to joining Cooper Industries, he worked for the Bussmann and Air Comfort divisions of McGraw-Edison from 1976 until McGraw-Edison was acquired by Cooper Industries in 1985. While with Cooper Industries, he served as Chief Operating Officer from 2000 to December 2003, Executive Vice President, Electrical Operations from 1992 to 2000, and President, Bussmann Division from the time McGraw-Edison was acquired by Cooper Industries to 1992. He served as a member of the Board of Directors of Cooper Industries from 2000 to December 2003.

Kenneth J. McAvoy has served as a director of our Company since 1994. He was Controller of our Company from 1981 to 1985 and Chief Financial Officer and Treasurer from 1986 to 1999. He also served as Vice President of Finance from 1984 to 1994; Executive Vice President of European Operations from 1994 to 1996; and Secretary from 1985 to 1999. He retired from our Company on December 31, 1999.

John K. McGillicuddy has served as a director of our Company since 2003. He was employed by KPMG LLP, a public accounting firm, from 1965 until his retirement in 2000. He was elected into the Partnership at KPMG LLP in June 1975 where he served as Audit Partner, SEC Reviewing Partner, Partner-in-Charge of Professional Practice, Partner-in-Charge of College Recruiting and Partner-in-Charge of Staff Scheduling. He is a director of Brooks Automation, Inc. and Cabot Corporation.

Gordon W. Moran has served as a director of our Company since 1990. He has been the Chairman of Hollingsworth & Vose Company, a paper manufacturer, since 1997, and served as its President and Chief Executive Officer from 1983 to 1998.

Daniel J. Murphy, III has served as a director of our Company since 1986. He has been the Chairman of Northmark Bank, a commercial bank he founded, since 1987. Prior to forming Northmark Bank in 1987, he was a Managing Director of Knightsbridge Partners, a venture capital firm, from January to August 1987, and President and a director of Arltru Bancorporation, a bank holding company, and its wholly-owned subsidiary, Arlington Trust Company, from 1980 to 1986.

Product Liability, Environmental and Other Litigation Matters

We are subject to a variety of potential liabilities connected with our business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. We maintain product liability and other insurance coverage, which we believe to be generally in accordance with industry practices. Nonetheless, such insurance coverage may not be adequate to protect us fully against substantial damage claims.

Contingencies

James Jones Litigation

On June 25, 1997, Nora Armenta (the Relator) filed a civil action in the California Superior Court for Los Angeles County (the Armenta case) against James Jones Company (James Jones), Mueller Co., Tyco International (U.S.), and the Company. We formerly owned James Jones. The Relator filed under the qui tam provision of the California state False Claims Act, Cal. Govt. Code § 12650 et seq. (California False Claims Act) and generally alleged that James Jones and the other defendants violated this statute by delivering some "defective" or "non-conforming" waterworks parts to municipal water systems in the State of California. The Relator filed a First Amended Complaint in November 1998 and a Second Amended Complaint in December 2000, which brought the total number of plaintiffs to 161. The Complaint further alleges that purchased non-conforming James Jones waterworks parts may leach into public drinking water elevated amounts of lead that may create a public health risk because they were made out of '81 bronze alloy (UNS No. C8440) and contain more lead than the specified and advertised '85 bronze alloy (UNS No. C83600). This contention is based on the average difference

of about 2% lead content between '81 bronze (6% to 8% lead) and '85 bronze (4% to 6% lead) and the assumption that this would mean increased consumable lead in public drinking water that could cause a public health concern. We believe the evidence and discovery available to date indicates that this is not the case. In addition, '81 bronze is used extensively in municipal and home plumbing systems and is approved by municipal, local and national codes. The Federal Environmental Protection Agency also defines metal for pipe fittings with no more than 8% lead as "lead free" under Section 1417 of the Federal Safe Drinking Water Act.

In this case, the Relator seeks three times an unspecified amount of actual damages and alleges that the municipalities have suffered hundreds of millions of dollars in damages. She also seeks civil penalties of $10,000 for each false claim and alleges that defendants are responsible for tens of thousands of false claims. Finally, the Relator requests an award of costs of this action, including attorneys' fees.

In December 1998, the Los Angeles Department of Water and Power (LADWP) intervened in this case and filed a complaint. We settled with the city of Los Angeles, by far the most significant city, for $7.3 million plus attorneys' fees. Co-defendants contributed $2.0 million toward this settlement.

In August 2003, an additional settlement payment was made for $13.0 million ($11.0 million from us and $2.0 million from James Jones), which settled the claims of the three Phase I cities (Santa Monica, San Francisco and East Bay Municipal Utility District) chosen by the Relator as having the strongest claims to be tried first. In addition to this $13.0 million payment, we are obligated to pay the Relator's attorney's fees.

On June 22, 2005, the Court dismissed the claims of the Phase II cities selected for a second trial phase (Contra Costa, Corona, Santa Cruz and Vallejo). The Court ruled that the Relator and these cities were required to show that the cities had received out of specification parts which were related to specific invoices and that this showing had not been made. Although each city's claim is unique, this ruling is significant for the claims of the remaining cities, and the Relator appealed. On June 29, 2007, the appellate court dismissed this appeal. However, this judgment can be appealed again at the conclusion of the entire case. The trial court has scheduled a trial on October 6, 2009 for six Phase III cities. Litigation is inherently uncertain, and we are unable to predict the outcome of this case.

On September 15, 2004, the Relator's attorneys filed a lawsuit in the California Superior Court for the City of Banning and 42 other cities and water districts against James Jones, Watts and Mueller Co. based on the same transactions alleged in the Armenta case alleging common law fraud. In October 2008, the Court dismissed the claims of 11 cities as time-barred. A first phase trial of selected cities is scheduled for April 13, 2010. Litigation is inherently uncertain, and we are unable to predict the outcome of this case.

On February 14, 2001, after our insurers had denied coverage for the claims in the Armenta case, we filed a complaint for coverage against our insurers in the California Superior Court (the coverage case). James Jones filed a similar complaint, the cases were consolidated, and the trial court made summary adjudication rulings that Zurich must pay all reasonable defense costs incurred by us and James Jones in the Armenta case since April 23, 1998 as well as such defense costs in the future until the end of the Armenta case. In August 2004, the California Court of Appeal affirmed these rulings, and, on December 1, 2004, the California Supreme Court denied Zurich's appeal of this decision. This denial permanently established Zurich's obligation to pay Armenta defense costs for both us and James Jones, and Zurich is currently making payments of incurred Armenta defense costs. However, as noted below, Zurich asserts that the defense costs paid by it are subject to reimbursement.

On November 22, 2002, the trial court entered a summary adjudication order that Zurich must indemnify and pay us and James Jones for amounts paid to settle with the City of Los Angeles. On August 6, 2004, the trial court made another summary adjudication ruling that Zurich must indemnify and pay us and James Jones for the $13.0 million paid to settle the claims of the Phase I cities

described above. Zurich will be able to appeal these orders at the end of the coverage case. Zurich has now made all of the payments required by these indemnity orders.

On February 8, 2006, Zurich filed a motion to set aside as void the November 22, 2002 and August 6, 2004 summary adjudication indemnity payment orders. After this motion was denied, Zurich's appeal was also denied and the California Supreme Court denied Zurich's petition for review. We are currently unable to predict the finality of these indemnity payment orders since Zurich can also appeal them at the end of the coverage case.

Zurich has asserted that all amounts paid by it to us and James Jones are subject to reimbursement under Deductible Agreements related to the insurance policies between Zurich and Watts. We believe that the agreements are unenforceable, that the Armenta case should be viewed as one occurrence, and that the deductible amount should be $0.5 million per occurrence if the agreements are enforceable.

On January 31, 2006, the federal district court in Chicago, Illinois determined that there are disputes under all Deductible Agreements in effect during the period in which Zurich issued primary policies and that the arbitrator could decide which agreements would control reimbursement claims. We appealed this ruling. On October 20, 2006, the United States Court of Appeals for the Seventh Circuit affirmed that an arbitration panel could decide which deductible agreements between Zurich and us would control Zurich's reimbursement claim.

Based on management's assessment, we do not believe that the ultimate outcome of the James Jones Litigation will have a material adverse effect on our liquidity, financial condition or results of operations. While this assessment is based on the facts currently known by us, litigation is inherently uncertain, the actual liability to us to resolve this litigation fully cannot be predicted with any certainty and there exists a reasonable possibility that we may ultimately incur losses in the James Jones Litigation in excess of the amount accrued. We intend to continue to contest vigorously all aspects of the James Jones Litigation.

Environmental Remediation

We have been named as a potentially responsible party with respect to a limited number of identified contaminated sites. The levels of contamination vary significantly from site to site as do the related levels of remediation efforts. Environmental liabilities are recorded based on the most probable cost, if known, or on the estimated minimum cost of remediation. We accrue estimated environmental liabilities based on assumptions, which are subject to a number of factors and uncertainties. Circumstances which can affect the reliability and precision of these estimates include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation and the time period over which remediation may occur. We recognize changes in estimates as new remediation requirements are defined or as new information becomes available.

Based on the facts currently known to us, we do not believe that the ultimate outcome of these matters will have a material adverse effect on our liquidity, financial condition or results of operations. Some of our environmental matters are inherently uncertain and there exists a possibility that we may ultimately incur losses from these matters in excess of the amount accrued. However, we cannot currently estimate the amount of any such additional losses.

Asbestos Litigation

We are defending approximately 105 lawsuits in different jurisdictions, with the greatest number filed in Mississippi and California state courts, alleging injury or death as a result of exposure to asbestos. The complaints in these cases typically name a large number of defendants and do not identify any particular Watts products as a source of asbestos exposure. To date, we have obtained a dismissal in every case before it has reached trial because discovery has failed to yield evidence of

substantial exposure to any Watts products. Based on the facts currently known to us, we do not believe that the ultimate outcome of these claims will have a material adverse effect on our liquidity, financial condition or results of operations.

Other Litigation

Other lawsuits and proceedings or claims, arising from the ordinary course of operations, are also pending or threatened against us. Based on the facts currently known to us, we do not believe that the ultimate outcome of these other litigation matters will have a material adverse effect on our liquidity, financial condition or results of operations.

Item 1A. *RISK FACTORS.*

Current economic cycles, particularly reduced levels of residential and non-residential starts and remodeling, may continue to have an adverse effect on our revenues and operating results.

We have experienced and expect to continue to experience fluctuations in revenues and operating results due to economic and business cycles. The businesses of most of our customers, particularly plumbing and heating wholesalers and home improvement retailers, are cyclical. Therefore, the level of our business activity has been cyclical, fluctuating with economic cycles. The current economic downturn may also affect the financial stability of our customers, which could impact their ability to pay amounts owed vendors, including us. We also believe our level of business activity is influenced by residential and non-residential starts and renovation and remodeling, which are, in turn, heavily influenced by interest rates, consumer debt levels, changes in disposable income, employment growth and consumer confidence. The current conditions in the housing and debt markets have caused a significant reduction in residential and non-residential starts and renovation and remodeling. These conditions have caused a decrease in our revenue and profit. If these conditions continue or worsen in the future, our revenues and profits could decrease and could result in a material adverse effect on our financial condition and results of operations.

Our ability to make large acquisitions may be limited due to the current credit market conditions.

As widely reported, the financial markets worldwide have been experiencing, among other things, severely diminished liquidity and credit availability. One of our strategies is to increase our revenues and profitability and expand our markets through acquisitions. We may require capital in excess of our available cash and the unused portion of our revolving credit facility to make large acquisitions, which we would generally obtain from access to the credit markets. However, the current economic environment may adversely impact the availability and cost of credit in the future. There can be no assurance that if a large acquisition is identified that we would have access to sufficient capital to complete such acquisition.

Sales of our products to customers serving the commercial market may be impacted by the delay or cancellation of projects due to the current credit market conditions.

Our products are sold to commercial builders and others in the commercial construction market. The current credit market conditions may prevent commercial builders or developers from obtaining the necessary capital to continue existing projects or to start new projects. This may result in the delay or cancellation of orders from our customers or potential customers and may adversely affect our revenues and our ability to manage inventory levels, collect customer receivables and maintain profitability.

Our ability to improve our profitability through the introduction of new technology in the manufacturing process may be delayed due to the reallocation of capital.

With the current economic outlook worldwide, it is necessary for us to make decisions on the best immediate use of capital. In reaching those decisions, certain planned capital expenditures which would modernize or improve throughput at our manufacturing locations may be delayed until the current credit market improves. The delay of these capital expenditures may impact our ability to realize efficiencies through new technologies and may result in increased maintenance costs in the business.

We face intense competition and, if we are not able to respond to competition in our markets, our revenues may decrease.

Competitive pressures in our markets could adversely affect our competitive position, leading to a possible loss of market share or a decrease in prices, either of which could result in decreased revenues and profits. We encounter intense competition in all areas of our business. Additionally, we believe our customers are attempting to reduce the number of vendors from which they purchase in order to reduce the size and diversity of their inventories and their transaction costs. To remain competitive, we will need to invest continually in manufacturing, marketing, customer service and support and our distribution networks. We may not have sufficient resources to continue to make such investments and we may be unable to maintain our competitive position. In addition, we anticipate that we may have to reduce the prices of some of our products to stay competitive, potentially resulting in a reduction in the profit margin for, and inventory valuation of, these products. Some of our competitors are based in foreign countries and have cost structures and prices in foreign currencies. Accordingly, currency fluctuations could cause our U.S. dollar-priced products to be less competitive than our competitors' products which are priced in other currencies.

Reductions or interruptions in the supply of raw materials and changes in the costs of raw materials could reduce our profit margins and adversely affect our ability to meet our customer delivery commitments.

We require substantial amounts of raw materials, including bronze, brass, cast iron, steel and plastic and substantially all of the raw materials we require are purchased from outside sources. The availability and costs of raw materials may be subject to curtailment or change due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers and changes in exchange rates and worldwide price and demand levels. We typically do not enter into long-term supply agreements. Our inability to obtain adequate supplies of raw materials for our products at favorable costs, or at all, could have a material adverse effect on our business, financial condition or results of operations by decreasing our profit margins and by hindering our ability to deliver products to our customers on a timely basis. During 2006 and continuing through approximately July 3, 2008, commodity costs rose significantly from demands in the worldwide marketplace. During the latter half of 2008, commodity costs, including copper, decreased significantly as most industrialized and emerging economies began experiencing recessions. If we cannot maintain our selling prices before our inventory costs reflect the recent rapid decline in copper prices our profitability could decline. Should commodity costs increase substantially again in the future, we may not be able to completely recover such costs, as happened in 2006 and 2007, through selling price increases to our customers or other product cost reductions, which would have a negative effect on our financial results. Additionally, we continue to purchase increased levels of finished product from international sources. If there is an interruption in delivering these finished products to our domestic warehouses, this could have a negative effect on our financial results.

Implementation of our acquisition strategy may not be successful, which could affect our ability to increase our revenues or our profitability.

One of our strategies is to increase our revenues and profitability and expand our markets through acquisitions that will provide us with complementary water-related products and increase market share for our existing product lines. We cannot be certain that we will be able to identify, acquire or

profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, companies acquired recently and in the future may not achieve revenues, profitability or cash flows that justify our investment in them. We expect to spend significant time and effort in expanding our existing businesses and identifying, completing and integrating acquisitions. We have faced increasing competition for acquisition candidates which have resulted in significant increases in the purchase prices of many acquisition candidates. This competition, and the resulting purchase price increases, may limit the number of acquisition opportunities available to us, possibly leading to a decrease in the rate of growth of our revenues and profitability. In addition, acquisitions may involve a number of special risks, including, but not limited to:

- inadequate internal controls over financial reporting and our ability to bring such controls into compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 in a timely manner;
- adverse short-term effects on our reported operating results;
- diversion of management's attention;
- investigations of, or challenges to, acquisitions by competition authorities;
- loss of key personnel at acquired companies; and
- unanticipated management or operational problems or legal liabilities.

We are subject to risks related to product defects, which could result in product recalls and could subject us to warranty claims in excess of our warranty provisions or which are greater than anticipated due to the unenforceability of liability limitations.

We maintain strict quality controls and procedures, including the testing of raw materials and safety testing of selected finished products. However, we cannot be certain that our testing will reveal latent defects in our products or the materials from which they are made, which may not become apparent until after the products have been sold into the market. We also cannot be certain that our suppliers will always eliminate latent defects in products we purchase from them. Accordingly, there is a risk that product defects will occur, which could require a product recall. Product recalls can be expensive to implement and, if a product recall occurs during the product's warranty period, we may be required to replace the defective product. In addition, a product recall may damage our relationship with our customers and we may lose market share with our customers. Our insurance policies may not cover the costs of a product recall.

Our standard warranties contain limits on damages and exclusions of liability for consequential damages and for misuse, improper installation, alteration, accident or mishandling while in the possession of someone other than us. We may incur additional operating expenses if our warranty provision does not reflect the actual cost of resolving issues related to defects in our products. If these additional expenses are significant, it could adversely affect our business, financial condition and results of operations.

We face risks from product liability and other lawsuits, which may adversely affect our business.

We have been and expect to continue to be subject to various product liability claims or other lawsuits, including, among others, that our products include inadequate or improper instructions for use or installation, or inadequate warnings concerning the effects of the failure of our products. In the event that we do not have adequate insurance or contractual indemnification, damages from these claims would have to be paid from our assets and could have a material adverse effect on our results of operations, liquidity and financial condition. We, like other manufacturers and distributors of products designed to control and regulate fluids and gases, face an inherent risk of exposure to product liability claims and other lawsuits in the event that the use of our products results in personal injury, property damage or business interruption to our customers. Although we maintain strict quality controls and

procedures, including the testing of raw materials and safety testing of selected finished products, we cannot be certain that our products will be completely free from defect. In addition, in certain cases, we rely on third-party manufacturers for our products or components of our products. Although we have product liability and general insurance coverage, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost, or, if available, will be adequate to cover any such liabilities. For more information, see "Item 1. Business Product Liability, Environmental and Other Litigation Matters."

Economic and other risks associated with international sales and operations could adversely affect our business and future operating results.

Since we sell and manufacture our products worldwide, our business is subject to risks associated with doing business internationally. Our business and future operating results could be harmed by a variety of factors, including:

- trade protection measures and import or export licensing requirements, which could increase our costs of doing business internationally;
- potentially negative consequences from changes in tax laws, which could have an adverse impact on our profits;
- difficulty in staffing and managing widespread operations, which could reduce our productivity;
- costs of compliance with differing labor regulations, especially in connection with restructuring our overseas operations;
- natural disasters and public health emergencies;
- laws of some foreign countries, which may not protect our intellectual property rights to the same extent as the laws of the United States; and
- unexpected changes in regulatory requirements, which may be costly and require time to implement.

Fluctuations in foreign exchange rates could materially affect our reported results.

We are exposed to fluctuations in foreign currencies, as a portion of our sales and certain portions of our costs, assets and liabilities are denominated in currencies other than U.S. dollars. Approximately 45.3% of our sales during the year ended December 31, 2008 were from sales outside of the U.S. compared to 41.7% for the year ended December 31, 2007. For the years ended December 31, 2008 and 2007, the appreciation of the euro against the U.S. dollar had a positive impact on sales of approximately $31.3 million and $34.1 million, respectively. There were also minor impacts on sales in other European currencies such as the pound sterling and Danish krone against the U.S. dollar. Additionally, our Canadian operations require significant amounts of U.S. purchases for their operations. Instead of buying or manufacturing domestically, we currently have a favorable cost structure for certain goods we source from our wholly-owned subsidiaries in China and our outside vendors. In 2005, China revalued its currency higher against the U.S. dollar and stated it would no longer tie the yuan to a fixed rate against the U.S. currency. The yuan was valued at 6.8 and 7.3 at December 31, 2008 and 2007, respectively. China also stated it will peg the yuan against numerous currencies, although it will keep the yuan in a tight band rather than letting it trade freely. The spot rate of the euro and Canadian dollar decreased in value and the yuan increased in value from December 31, 2007 to December 31, 2008 by approximately 19%, 5% and 6% respectively, against the U.S. dollar. If our share of revenue and purchases in non-dollar denominated currencies continues to increase in future periods, exchange rate fluctuations will likely have a greater impact on our results of operations and financial condition.

Our ability to achieve savings through our restructuring plans may be impacted by local regulations or factors beyond the control of management.

We implemented restructuring plans in 2007 and in 2009. Management's plans include a number of steps that we believe are necessary to reduce operating costs and increase efficiencies throughout our manufacturing footprint. Although we have considered the impact of local regulations, negotiations with employee representatives, the timing of capital expenditures necessary to prepare facilities and the related costs associated with these activities, factors beyond the control of management may impact the timing and therefore impact when the savings will be achieved under the plans. Further, if we are not successful in completing the restructuring projects in the time frames contemplated or if additional issues arise during the projects that add costs or disrupt customer service, then our operating results could be negatively affected.

If we cannot continue operating our manufacturing facilities at current or higher utilization levels, our results of operations could be adversely affected.

The equipment and management systems necessary for the operation of our manufacturing facilities may break down, perform poorly or fail, resulting in fluctuations in our ability to manufacture our products and to achieve manufacturing efficiencies. We operate a number of manufacturing facilities, all of which are subject to this risk, and such fluctuations at any of these facilities could cause an increase in our production costs and a corresponding decrease in our profitability. We also have a vertically-integrated manufacturing process. Each segment is dependent upon the prior process and any breakdown in one segment will adversely affect all later components. Fluctuations in our production process may affect our ability to deliver products to our customers on a timely basis. Our inability to meet our delivery obligations could result in a loss of our customers and negatively affect our business, financial condition and results of operations.

In addition, we have an ongoing manufacturing restructuring program to reduce our manufacturing costs. If our planned manufacturing plant consolidations in the United States, Europe and China are not successful, our results of operations and financial condition could be materially adversely affected.

If we continue to experience declines in demand, we will further reduce our production levels, resulting in lower capacity utilization that could negatively impact our results of operations.

In response to the current recessionary pressures and reduced order volumes, we have decreased our production levels to conserve cash. If we continue to experience declines in orders from customers, we will take further steps to reduce our production levels to avoid building inventory and increasing our working capital levels. While this step helps to preserve cash, a large amount of our production costs are fixed and therefore will negatively impact our ability to absorb these costs, resulting in lower gross margins for the products manufactured. Although we are expecting a certain level of decreased production volume in 2009, there can be no assurances that additional steps will not be required to reduce these levels further thereby decreasing our results from operations.

If we experience delays in introducing new products or if our existing or new products do not achieve or maintain market acceptance and regulatory approvals, our revenues and our profitability may decrease.

Our failure to develop new and innovative products or to custom design existing products could result in the loss of existing customers to competitors or the inability to attract new business, either of which may adversely affect our revenues. Our industry is characterized by:

- intense competition;
- changes in specifications required by our customers, plumbing codes and/or regulatory agencies;
- changes in requirements under new legislation;

technically complex products; and

constant improvement to existing products and introductions of new products.

We believe our future success will depend, in part, on our ability to anticipate or adapt to these factors and to offer, on a timely basis, products that meet customer demands and the requirements of plumbing codes and/or regulatory agencies. The development of new or enhanced products is a complex and uncertain process requiring the anticipation of technological and market trends. We may experience design, manufacturing, marketing or other difficulties, such as an inability to attract a sufficient number of experienced engineers, that could delay or prevent our development, introduction, approval or marketing of new products or enhancements and result in unexpected expenses. Such difficulties could cause us to lose business from our customers and could adversely affect our competitive position; in addition, added expenses could decrease the profitability associated with those products that do not gain market acceptance. Additionally, we recently developed lead free versions of many of our plumbing products to comply with new lead content standards going into effect in California and Vermont. If our lead free products fail to comply with these new standards or if we encounter difficulties in the manufacturing processes for these products, we could lose a substantial amount of business from customers in California and Vermont and any other states that adopt similar standards in the future.

Environmental compliance costs and liabilities could increase our expenses or reduce our profitability.

Our operations and properties are subject to extensive and increasingly stringent laws and regulations relating to environmental protection, including laws and regulations governing air emissions, water discharges, waste management and disposal and workplace safety. Such laws and regulations can impose substantial fines and sanctions for violations and require the installation of costly pollution control equipment or operational changes to limit pollution emissions and/or decrease the likelihood of accidental hazardous substance releases. We could be required to halt one or more portions of our operations until a violation is cured. We could also be liable for the costs of property damage or personal injury to others. Although we attempt to operate in compliance with these environmental laws, we may not succeed in this effort at all times. The costs of curing violations or resolving enforcement actions that might be initiated by government authorities could be substantial.

Under certain environmental laws, the current and past owners or operators of real property may be liable for the costs of cleaning up contamination, even if they did not know of or were not responsible for such contamination. These laws also impose liability on any person who arranges for the disposal or treatment of hazardous waste at any site. We have been named as a potentially responsible party or are otherwise conducting remedial activities with respect to a limited number of identified contaminated sites, including sites we currently own or operate. There can be no assurances that our ownership and operation of real property and our disposal of waste will not lead to other liabilities under these laws.

We have incurred, and expect to continue to incur, costs relating to environmental matters. In addition, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements could require us to incur additional costs or become the basis for new or increased liabilities that could be significant. Environmental litigation, enforcement and compliance are inherently uncertain and we may experience significant costs in connection with environmental matters. For more information, see "Item 1. Business Product Liability, Environmental and Other Litigation Matters."

Third parties may infringe our intellectual property and we may expend resources enforcing our rights or suffer competitive injury.

We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We may be required to spend resources to monitor and police our intellectual property rights. If we fail to

successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. We have been limited from selling products from time-to-time because of existing patents.

The requirements of Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets" (FAS 142) may result in a write-off of all or a portion of our goodwill and non-amortizable intangible assets, which would negatively affect our operating results and financial condition.

As of December 31, 2008, we recorded goodwill and non-amortizable intangible assets of $431.3 million and $62.0 million, respectively. In lieu of amortization, we are required to perform an annual impairment review of both goodwill and non-amortizable intangible assets. In 2008, in performing our annual goodwill review, we recognized a non-cash pre-tax charge of approximately $22.0 million as an impairment of all the goodwill value related to one reporting unit. Although we did not experience goodwill impairment in our remaining reporting units, there can be no assurances that future goodwill impairment will not occur. We perform our annual test for indications of goodwill and non-amortizable intangible assets impairment in the fourth quarter of our fiscal year or sooner if indicators of impairment exist.

The loss or financial instability of a major customer could have an adverse effect on our results of operations.

In 2008, our top ten customers accounted for approximately 20% of our total net sales with no one customer accounting for more than approximately 5% of our total net sales. Our customers generally are not obligated to purchase any minimum volume of products from us and are able to terminate their relationships with us at any time. In addition, increases in the prices of our products could result in a reduction in orders for our customers. A significant reduction in orders from, or change in terms of contracts with, any significant customers could have a material adverse effect on our future results of operations. Furthermore, some of our major customers are facing financial challenges due to market declines and heavy debt levels; should these challenges become acute, our results could be materially adversely affected due to reduced orders and/or payment delays or defaults.

Certain indebtedness may limit our ability to pay dividends, incur additional debt and make acquisitions and other investments.

Our revolving credit facility and other senior indebtedness contain operational and financial covenants that restrict our ability to make distributions to stockholders, incur additional debt and make acquisitions and other investments unless we satisfy certain financial tests and comply with various financial ratios. If we do not maintain compliance with these covenants, our creditors could declare a default under our revolving credit facility or senior notes and our indebtedness could be declared immediately due and payable. Our ability to comply with the provisions of our indebtedness may be affected by changes in economic or business conditions beyond our control. Further, given the current condition of the credit markets, should we require additional debt financing above our existing credit limit, we cannot be assured such financing would be available to us or available to us on reasonable economic terms.

Investments in auction rate securities and rights issued by UBS are subject to risks which may cause losses and affect the liquidity of these investments.

At December 31, 2008, we held $6.0 million in auction rate securities (ARS) at fair value whose underlying investments are AA rated municipal bonds and student loans and $2.3 million in rights issued by UBS, AG (UBS). All of our ARS were sold by UBS. In the fourth quarter of 2008, UBS issued a settlement offer to the holder of certain ARS including all of the securities held by us. Under the terms of the settlement offer, UBS issued non-transferable rights entitling the holder to sell the underlying ARS at par to UBS at any time during the period June 30, 2010 through July 2, 2012, after which time the rights expire. UBS could elect at any time from the settlement through the expiration of the settlement agreement to purchase the ARS, in which case UBS would be required to pay par value

for the ARS. The value of the ARS and the related rights from UBS are subject to the credit risk of the underlying agencies which originally issued the bonds as well as the credit risk of UBS. If UBS is unable to perform under the terms of the rights agreements, we could incur losses to liquidate the remaining securities or hold the securities to maturity.

One of our stockholders can exercise substantial influence over our Company.

As of February 1, 2009, Timothy P. Horne, a member of our board of directors, beneficially owned approximately 19.8% of our outstanding shares of Class A Common Stock (assuming conversion of all shares of Class B Common Stock beneficially owned by Mr. Horne into Class A Common Stock) and approximately 99.0% of our outstanding shares of Class B Common Stock, which represents approximately 70.7% of the total outstanding voting power. As long as Mr. Horne controls shares representing at least a majority of the total voting power of our outstanding stock, Mr. Horne will be able to unilaterally determine the outcome of most stockholder votes, and other stockholders will not be able to affect the outcome of any such votes.

Conversion and sale of a significant number of shares of our Class B Common Stock could adversely affect the market price of our Class A Common Stock.

As of February 1, 2009, there were outstanding 29,251,739 shares of our Class A Common Stock and 7,293,880 shares of our Class B Common Stock. Shares of our Class B Common Stock may be converted into Class A Common Stock at any time on a one for one basis. Under the terms of a registration rights agreement with respect to outstanding shares of our Class B Common Stock, the holders of our Class B Common Stock have rights with respect to the registration of the underlying Class A Common Stock. Under these registration rights, the holders of Class B Common Stock may require, on up to two occasions, that we register their shares for public resale. If we are eligible to use Form S-3 or a similar short-form registration statement, the holders of Class B Common Stock may require that we register their shares for public resale up to two times per year. If we elect to register any shares of Class A Common Stock for any public offering, the holders of Class B Common Stock are entitled to include shares of Class A Common Stock into which such shares of Class B Common Stock may be converted in such registration. However, we may reduce the number of shares proposed to be registered in view of market conditions. We will pay all expenses in connection with any registration, other than underwriting discounts and commissions. If all of the available registered shares are sold into the public market the trading price of our Class A Common Stock could decline.

Our Class A Common Stock has insignificant voting power.

Our Class B Common Stock entitles its holders to ten votes for each share and our Class A Common Stock entitles its holders to one vote per share. As of February 1, 2009, our Class B Common Stock constituted 20.0% of our total outstanding common stock and 71.4% of the total outstanding voting power and thus is able to exercise a controlling influence over our business.

Item 1B. *UNRESOLVED STAFF COMMENTS.*

None.

Item 2. ***PROPERTIES.***

As of December 31, 2008, we maintained approximately 74 facilities worldwide, including our corporate headquarters located in North Andover, Massachusetts. The remaining facilities consist of foundries, manufacturing facilities, warehouses, sales offices and distribution centers. The principal properties in each of our three geographic segments and their location, principal use and ownership status are set forth below:

North America:

Location	Principal Use	Owned/Leased
North Andover, MA	Corporate Headquarters	Owned
Export, PA	Manufacturing	Owned
Franklin, NH	Manufacturing/Distribution	Owned
Burlington, ON, Canada	Manufacturing/Distribution	Owned
Kansas City, KS	Manufacturing	Owned
Fort Myers, FL	Manufacturing	Owned
St. Pauls, NC	Manufacturing	Owned
Spindale, NC	Manufacturing/Distribution	Owned
Chesnee, SC	Manufacturing	Owned
Dunnellon, FL	Warehouse	Owned
San Antonio, TX	Warehouse	Owned
Springfield, MO	Manufacturing/Distribution	Leased
Langley, BC, Canada	Manufacturing	Leased
Houston, TX	Manufacturing	Leased
Brea, CA	Manufacturing	Leased
Phoenix, AZ	Warehouse	Leased
Kansas City, KS	Distribution Center	Leased
Reno, NV	Distribution Center	Leased
Vernon, CA	Distribution Center	Leased
Calgary, AB, Canada	Distribution Center	Leased

Europe:

Location	Principal Use	Owned/Leased
Eerbeek, Netherlands	European Headquarters/Manufacturing	Owned
Biassono, Italy	Manufacturing	Owned
Brescia, Italy	Manufacturing	Owned
Landau, Germany	Manufacturing	Owned
Fresseneville, France	Manufacturing	Owned
Hautvillers, France	Manufacturing	Owned
Plovdiv, Bulgaria	Manufacturing	Owned
Ammanford, United Kingdom	Manufacturing	Owned
Vildjberg, Denmark	Manufacturing	Owned
Rosières, France	Manufacturing	Leased
Monastir, Tunisia	Manufacturing	Leased
Gardolo, Italy	Manufacturing	Leased
Sorgues, France	Manufacturing	Leased
Grenoble, France	Manufacturing	Leased
Vojens, Denmark	Warehouse	Leased

China:

Location	Principal Use	Owned/Leased
Shanghai, China	Asian Headquarters	Leased
Tianjin Tanggu District, THMT, China	Manufacturing	Owned
Taizhou, Yuhuan, China	Manufacturing	Owned
Hunan, Changsha, China	Manufacturing	Owned
Ningbo, Beilun, China	Manufacturing	Owned
Ningbo, Beilun Port, China	Distribution Center	Leased

Certain of our facilities are subject to mortgages and collateral assignments under loan agreements with long-term lenders. In general, we believe that our properties, including machinery, tools and equipment, are in good condition, well maintained and adequate and suitable for their intended uses. Many of our manufacturing plants, especially in North America and China, are currently operating at levels that our management considers below normal capacity due to the current worldwide recession. As part of its continuous manufacturing footprint review, in 2009, management will execute a plan to further consolidate its North America and Chinese operations. See Recent Developments in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for more details.

Item 3. ***LEGAL PROCEEDINGS.***

We are from time to time involved in various legal and administrative procedures. See Item 1, "Business Product Liability, Environmental and Other Litigation Matters," which is incorporated herein by reference.

Item 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.***

There were no matters submitted during the fourth quarter of the fiscal year covered by this Annual Report to a vote of security holders through solicitation of proxies or otherwise.

PART II

Item 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.***

The following table sets forth the high and low sales prices of our Class A Common Stock on the New York Stock Exchange during 2008 and 2007 and cash dividends paid per share.

	2008			2007		
	High	**Low**	**Dividend**	**High**	**Low**	**Dividend**
First Quarter	$30.75	$24.02	$ 0.11	$46.71	$35.05	$ 0.10
Second Quarter	31.00	24.17	0.11	41.34	36.10	0.10
Third Quarter	33.00	21.89	0.11	39.96	30.40	0.10
Fourth Quarter	29.90	16.67	0.11	33.09	25.40	0.10

There is no established public trading market for our Class B Common Stock, which is held exclusively by members of the Horne family. The principal holders of such stock are subject to restrictions on transfer with respect to their shares. Each share of our Class B Common Stock (10 votes per share) is convertible into one share of Class A Common Stock (1 vote per share).

Aggregate common stock dividend payments for 2008 and 2007 were $16.2 million and $15.6 million, respectively. While we presently intend to continue to pay cash dividends, the payment of future cash dividends depends upon the Board of Directors' assessment of our earnings, financial condition, capital requirements and other factors.

The number of record holders of our Class A Common Stock as of February 22, 2009 was 166. The number of record holders of our Class B Common Stock as of February 22, 2009 was 7.

We satisfy the minimum withholding tax obligation due upon the vesting of shares of restricted stock and the conversion of restricted stock units into shares of Class A Common Stock by automatically withholding from the shares being issued a number of shares with an aggregate fair market value on the date of such vesting or conversion that would satisfy the withholding amount due.

We did not withhold any Class A Common Stock for withholding tax obligations during the quarter ended December 31, 2008.

The following table includes information with respect to repurchases we made of our Class A Common Stock during the quarter ended December 31, 2008.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1)
September 29, 2008 - October 26, 2008				553,615
October 27, 2008 - November 23, 2008				553,615
November 24, 2008 - December 31, 2008				553,615
Total				553,615

(1)

On November 9, 2007, we announced that our Board of Directors had authorized a stock repurchase program. Under the program, we may repurchase up to an aggregate of 3.0 million shares of our Class A Common Stock in open market purchases or in privately negotiated transactions. On October 28, 2008, the Company announced that it had temporarily suspended its stock repurchase program. No shares were repurchased during the quarter ended December 31, 2008. As of December 31, 2008, we had repurchased 2.45 million shares of stock for a total cost of $68.1 million.

Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on our Class A Common Stock for the last five years with the cumulative return of companies on the Standard & Poor's 500 Stock Index and the Russell 2000 Index. We chose the Russell 2000 Index because it represents companies with a market capitalization similar to that of Watts. The graph assumes that the value of the investment in our Class A Common Stock and each index was $100 at December 31, 2003 and that all dividends were reinvested.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Watts Water Technologies, Inc., The S&P 500 Index
and The Russell 2000 Index

---

* $100 invested on December 31, 2003 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Cumulative Total Return

	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Watts Water Technologies, Inc	100.00	146.82	139.36	191.03	140.11	119.52
S&P 500	100.00	110.88	116.33	134.70	142.10	89.53
Russell 2000	100.00	118.33	123.72	146.44	144.15	95.44

The above Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

Item 6. ***SELECTED FINANCIAL DATA.***

The selected financial data set forth below should be read in conjunction with our consolidated financial statements, related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

FIVE-YEAR FINANCIAL SUMMARY

(Amounts in millions, except per share and cash dividend information)

	Year Ended 12/31/08(1)(8)	Year Ended 12/31/07(2)(8)	Year Ended 12/31/06(3)(8)	Year Ended 12/31/05(4)(5)(8)	Year Ended 12/31/04(6)(7)(8)
Statement of operations data:					
Net sales	$ 1,459.4	$ 1,382.3	$ 1,230.8	$ 924.3	$ 824.6
Income from continuing operations	47.3	77.6	77.1	55.0	48.7
Loss from discontinued operations, net of taxes	(0.7)	(0.2)	(3.4)	(0.4)	(1.9)
Net income	46.6	77.4	73.7	54.6	46.8
Income per share from continuing operations diluted	1.28	1.99	2.29	1.67	1.49
Loss per share from discontinued operations diluted	(0.02)	(0.01)	(0.10)	(0.01)	(0.06)
Net income per share diluted	1.26	1.99	2.19	1.66	1.43
Cash dividends declared per common share	$ 0.44	$ 0.40	$ 0.36	$ 0.32	$ 0.28
Balance sheet data (at year end):					
Total assets	$ 1,660.1	$ 1,729.3	$ 1,660.9	$ 1,101.0	$ 922.7
Long-term debt, net of current portion	$ 409.8	$ 432.2	$ 441.7	$ 293.4	$ 180.6

---

(1) For the year ended December 31, 2008, net income includes the following net pre-tax costs: goodwill impairment, severance costs, asset write-downs and other costs in North America of $22.0 million, $2.6 million, $0.4 million and $1.5 million respectively; accelerated depreciation and other costs in China of $1.0 million and $0.2 million, respectively and minority interest income of $0.2 million; severance costs in Europe of $0.2 million. The after-tax cost of these items was $21.2 million.

(2) For the year ended December 31, 2007, net income includes the following net pre-tax costs: change in estimate of workers' compensation costs of $2.9 million, severance and product line discontinuance costs in North America of $0.4 million and $3.1 million, respectively; accelerated depreciation and asset write-downs, product line discontinuance costs and severance costs in China of $2.9 million, $0.7 million and $0.4 million, respectively, and minority interest income of $0.9 million. The after-tax cost of these items was $6.9 million.

(3) For the year ended December 31, 2006, net income includes the following net pre-tax gain: gain on sales of buildings of $8.2 million, restructuring costs consisting primarily of European severance of $2.2 million and amortization of $0.4 million, other costs consisting of accelerated depreciation and severance in our Chinese joint venture of $4.7 million and minority interest income of $1.5 million. The after-tax gain of these items was $1.5 million.

(4) For the year ended December 31, 2005, net income includes the following pre-tax costs: restructuring of $0.7 million and other costs consisting of accelerated depreciation and asset write-downs of $1.8 million. The after-tax cost of these items was $1.6 million.

(5) For the year ended December 31, 2005, net income includes a net after-tax charge of $0.9 million for a selling, general and administrative expense charge of $1.5 million related to a contingent earn-out agreement.

(6) For the year ended December 31, 2004, net income includes a net after-tax charge of $2.3 million for certain accrued expense adjustments, which are included in selling, general and administrative expense after-tax charges of $3.5 million related to a contingent earn-out agreement and $0.7 million for various accrual adjustments and $0.5 million recorded as an income tax benefit.

(7) For the year ended December 31, 2004, net income includes the following pre-tax costs: restructuring of $0.1 million and other costs consisting of accelerated depreciation of $2.9 million. The after-tax cost of these items was $1.8 million.

(8) In December 2004, we decided to divest our interest in our minority-owned subsidiary, Jameco International, LLC (Jameco LLC). We recorded in discontinued operation a net of tax impairment charge of $0.7 million for the year ended December 31, 2004. Also included in discontinued operations is the net of tax operating results of Jameco LLC of $0.1 million of loss and $0.1 million of income for the year ended December 31, 2004 and 2003, respectively. In September 1996, we divested our Municipal Water Group of businesses, which included Henry Pratt, James Jones Company and Edward Barber and Company Ltd. Costs and expenses related to the Municipal Water Group, for 2008, 2007, 2006, 2005 and 2004 relate to legal and settlement costs associated with the James Jones Litigation. The loss, net of taxes, consists of $ 0.7 million, $0.2 million, $3.4 million, $0.4 million and $1.1 million for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

Item 7. ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.***

Overview

We are a leading supplier of products for use in the water quality, water safety, water flow control and water conservation markets in both North America and Europe with an expanding presence in Asia. For over 130 years, we have designed and manufactured products that promote the comfort and safety of people and the quality and conservation of water used in commercial and residential applications. We earn revenue and income almost exclusively from the sale of our products. Our principal product lines include:

- water quality products, including backflow preventers and check valves for preventing reverse flow within water lines and fire protection systems and point-of-use water filtration and reverse osmosis systems for both commercial and residential applications;
- a wide range of water pressure regulators for both commercial and residential applications;
- drainage products for industrial, commercial, marine and residential applications;
- water supply products for commercial and residential applications;
- temperature and pressure relief valves for water heaters, boilers and associated systems;
- thermostatic mixing valves for tempering water in commercial and residential applications;
- systems for under-floor radiant applications and hydraulic pump groups for gas boiler manufacturers and renewable energy applications, including solar and heat pump control packages;
- flexible stainless steel connectors for natural and liquid propane gas in commercial food service and residential applications; and
- large diameter butterfly valves for use in China's water infrastructure.

Our business is reported in three geographic segments, North America, Europe and China. We distribute our products through three primary distribution channels, wholesale, do-it-yourself (DIY) and original equipment manufacturers (OEMs). Interest rates have an indirect effect on the demand for our products due to the effect such rates have on the number of new residential and commercial construction starts and remodeling projects. All three of these activities have an impact on our sales and earnings. An additional factor that has had an effect on our sales is fluctuation in foreign currencies, as a portion of our sales and certain portions of our costs, assets and liabilities are denominated in currencies other than the U.S. dollar.

We believe that the factors relating to our future growth include our ability to continue to make selective acquisitions, both in our core markets as well as in new complementary markets, regulatory requirements relating to the quality and conservation of water, increased demand for clean water with continued enforcement of plumbing and building codes and a healthy economic environment. We have completed 32 acquisitions since divesting our industrial and oil and gas business in 1999. Our acquisition strategy focuses on businesses that manufacture preferred brand name products that address our themes of water quality, water conservation, water safety and water flow control and related complementary markets. We target businesses that will provide us with one or more of the following: an entry into new markets, an increase in shelf space with existing customers, a new or improved technology or an expansion of the breadth of our water quality, water conservation, water safety and water flow control products for the residential and commercial markets. In 2008 and 2007, sales from acquisitions contributed approximately 4.6% and 3.9%, to our total sales growth over the prior year.

Products representing a majority of our sales are subject to regulatory standards and code enforcement, which typically require that these products meet stringent performance criteria. Together with our commissioned manufacturers' representatives, we have consistently advocated for the

development and enforcement of such plumbing codes. We are focused on maintaining stringent quality control and testing procedures at each of our manufacturing facilities in order to manufacture products in compliance with code requirements and take advantage of the resulting demand for compliant products. We believe that the product development, product testing capability and investment in plant and equipment needed to manufacture products in compliance with code requirements, represent a barrier to entry for competitors. We believe that, over the long term, there is an increasing demand among consumers for products to ensure water quality, which creates growth opportunities for our products.

Adverse economic developments in 2008 created a challenging environment for us. The credit crisis and recessionary pressures negatively impacted the primary markets we serve. We took steps during the year to reduce costs and conserve cash. During the fourth quarter of 2008, we reduced our workforce by 10% in the U.S. This step is expected to save us approximately $10.0 million to $11.0 million per year. In addition to the reduction in force, we took several steps to help conserve cash into 2009, including suspending our stock repurchase program, first freezing U.S. wages and salaries and later implementing salary reductions, controlling capital spending levels and continuing to focus on working capital levels. We also announced a further operational restructuring program to consolidate our manufacturing footprint in North America and China. We will continue to evaluate acquisition candidates during 2009, but we expect funds to be spent on acquisitions will be less than that spent in 2008. We are enhancing our focus on productivity and continuous improvement, and on managing our working capital levels as well as positioning many of our products to benefit when the market returns. We believe that we are well positioned to weather the current economic crisis due to our ability to continue to generate positive cash flows and control spending levels. We are not faced with any major liquidity events until 2010, at which time $50.0 million of our debt will come due.

We require substantial amounts of raw materials to produce our products, including bronze, brass, cast iron, steel and plastic, and substantially all of the raw materials we require are purchased from outside sources. We have experienced volatility in the costs of certain raw materials, particularly copper. Bronze and brass are copper-based alloys. During the fourth quarter of 2008, prices of copper dropped from highs experienced less than nine months earlier.

A risk we face is our ability to deal effectively with changes in raw material costs. We manage this risk by monitoring related market prices, working with our suppliers to achieve the maximum level of stability in their costs and related pricing, seeking alternative supply sources when necessary, implementing cost reduction programs and passing increases in costs to our customers. Additionally from time to time we may use commodity futures contracts on a limited basis to manage this risk. We are not able to predict whether or for how long this volatility will continue. If costs continue to decrease, we may experience pressure from customers to reduce product pricing. We are unable to predict the timing and impact that these pricing decreases could have to our profit margins.

Another risk we face in all areas of our business is competition. We consider brand preference, engineering specifications, code requirements, price, technological expertise, delivery times and breadth of product offerings to be the primary competitive factors. As mentioned previously, we believe that the product development, product testing capability and investment in plant and equipment needed to manufacture products in compliance with code requirements, represent a barrier to entry for competitors. We are committed to maintaining our capital equipment at a level consistent with current technologies, and thus we spent approximately $26.6 million in 2008 and $37.8 million in 2007.

Recent Developments

On February 10, 2009, a plan was approved by the Board of Directors to expand our program to consolidate our manufacturing footprint in North America and China. The plan provides for the closure of three plants, with the relocation of those operations to existing facilities in either North America or China or to a new central facility in the United States.

The footprint consolidation pre-tax charge will be approximately $11.7 million, including severance charges of approximately $3.2 million, relocation costs of approximately $3.3 million and asset write-downs of approximately $5.2 million. We also expect to record a net gain on property sales of $2.4 million. One-time tax charges of approximately $7.0 million regarding the payback of prior tax holiday benefits are also expected to be incurred as part of the building relocations. Approximately 400 positions will be eliminated in connection with this consolidation. The net after tax charge for this manufacturing consolidation program is expected to be approximately $14.9 million ($4.4 million non cash), with costs being incurred through December 2009. We expect to spend approximately $4.8 million in capital expenditures to consolidate operations. We expect this entire project will be self-funded through net proceeds from the sale of buildings and other assets being disposed of as part of the plan.

On February 9, 2009, we declared a quarterly dividend of eleven cents ($0.11) per share on each outstanding share of Class A Common Stock and Class B Common Stock.

Results of Operations

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net Sales. Our business is reported in three geographic segments: North America, Europe and China. Our net sales in each of these segments for the years ended December 31, 2008 and 2007 were as follows:

	Year Ended December 31, 2008		Year Ended December 31, 2007			
	Net Sales	% Sales	Net Sales	% Sales	Change	Change to Consolidated Net Sales
	(Dollars in millions)					
North America	**$ 866.2**	**59.4**%	$ 871.0	63.0%	$ (4.8)	(0.4)%
Europe	**546.0**	**37.4**	452.6	32.7	93.4	6.8
China	**47.2**	**3.2**	58.7	4.3	(11.5)	(0.8)
Total	**$ 1,459.4**	**100.0**%	$ 1,382.3	100.0%	$ 77.1	5.6%

The change in net sales is attributable to the following:

					Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
	North America	Europe	China	Total	North America	Europe	China	Total	North America	Europe	China
	(Dollars in millions)										
Organic growth	$ (18.2)	$ 11.3	$ (12.1)	$ (19.0)	(1.3)%	0.8%	(0.9)%	(1.4)%	(2.1)%	2.5%	(20.6)%
Foreign exchange	0.5	31.3	3.8	35.6		2.3	0.3	2.6		6.9	6.5
Acquisitions	12.9	50.8		63.7	0.9	3.7		4.6	1.5	11.2	
Disposal			(3.2)	(3.2)			(0.2)	(0.2)			(5.5)
Total	$ (4.8)	$ 93.4	$ (11.5)	$ 77.1	(0.4)%	6.8%	(0.8)%	5.6%	(0.6)%	20.6%	(19.6)%

Organic net sales for 2008 decreased in North America primarily due to decreased sales in the wholesale market, where sales were 2.5% lower than in 2007. Unit sale declines, due in large part to the soft economy, were widespread across a number of product lines, with our backflow product line impacted the most. Organic sales in our North American retail market for 2008 remained relatively flat compared with 2007, decreasing 0.6%. Unit sale reductions in the retail market due to the soft economy were offset by selected price increases and new product rollouts. Given the current recession and more stringent bank lending standards, we believe that both the commercial and residential construction markets, which we sell into through our wholesale and DIY channels, will continue to be soft through 2009. As a result, we believe that our sales in North America may decline in 2009. Growth

in North America due to acquisitions is due to the inclusion of sales from Topway acquired in November 2007.

Organic net sales for 2008 increased in Europe primarily due to an 11.0% increase in sales into the European OEM market as compared to 2007. OEM sales were positively impacted in Germany where sales of our products into alternative energy and energy conservation markets were strong. Sales into the wholesale market for 2008 decreased by 4.5% as compared to 2007 and were negatively affected by declines in construction activity. Acquired sales growth in Europe was due to the inclusion of Blücher for seven months in 2008. We expect sales in Europe will increase on a constant currency basis in 2009 as Blücher will be reported for a full year and we expect alternative energy products sales to grow, offset by unit declines in our core product lines. Core sales are expected to be impacted by the widening recession in Europe.

Organic net sales for 2008 declined in China due to decreased sales in both the Chinese domestic and export markets. China sales were also negatively affected as compared to 2007 from the disposal of a commodity butterfly valve business during the fourth quarter of 2008. This decrease was partially offset by an increase in sales of large diameter butterfly valves to our water infrastructure customers during 2008.

The increases in net sales due to foreign exchange in North America, Europe and China were primarily due to the appreciation of the Canadian dollar, euro and yuan, respectively, against the U.S. dollar. We cannot predict whether these currencies will continue to appreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net sales. Recent fluctuations in foreign currency rates portend a reduction in those currencies against the U.S. dollar.

Gross Profit. Gross profit and gross profit as a percent of net sales (gross margin) for 2008 and 2007 were as follows:

	Year Ended December 31,		Point
	2008	**2007**	**Change**
	(dollars in millions)		
Gross profit	**$ 488.4**	$461.6	
Gross margin	**33.5**%	33.4%	0.1%

Gross margin improved by 10 basis points to 33.5% in 2008 compared to 2007. The improvement was attributable primarily to margin improvements in North America and Europe offset by declines in China. North America's margin improved 70 basis points to 34.4% primarily due to the price increases implemented to offset prior raw material cost increases and, to a lesser extent, the mix of product sold. Further, 2007 North American gross margins were negatively impacted by approximately $6.5 million, or approximately 100 basis points on the prior year gross margin, for charges associated with product discontinuances and a change in estimate for workers' compensation costs. Gross margin in Europe increased to 32.3% from 31.0% primarily due to our ability to leverage additional volume from alternative energy product sales with better factory absorption levels due to the rationalization efforts made over the last two years in Italy. China gross margin deteriorated when compared to 2007 primarily due to excess capacity due to sales declines, value added tax increases, negative impact from the increase in the value of the Chinese yuan against the U.S. dollar and disruptions from a plant move and labor disputes.

During 2007, we initiated a global restructuring program that was approved by our Board of Directors on October 30, 2007. The program includes plans to shut down five manufacturing facilities, right-size a sixth facility and incur costs to relocate one of our China facilities. In addition, we performed an evaluation of certain product lines in 2007. After completing this evaluation, we initiated a plan to discontinue certain product lines. In accordance with the restructuring program and product line discontinuance commenced in 2007, we anticipated spending $12.9 million. To date, we have

incurred $8.9 million of costs associated with the plans and have successfully shut down two manufacturing facilities and right sized another facility. Management is reviewing the status of the program and the timing of charges for the Europe segment. We anticipate the restructuring program will not be completed until 2010, with the expectation that our Europe segment will incur most of its costs during 2010. As such, previous estimates of savings from the programs will likely be achieved in 2010 rather than in the second half of 2009.

The following table presents the total estimated pre-tax charges to be incurred for the global restructuring program and product line discontinuances initiated in 2007 by our reportable segments and amounts charged to date:

Reportable Segment	**Total**	**Spent to Date**
	(in millions)	
North America	$ 5.7	$ 5.8
Europe	3.9	0.2
China	3.3	2.9
Total	$12.9	$ 8.9

Selling, General and Administrative Expenses. Selling, general and administrative expenses, or SG&A expenses, for 2008 increased $27.5 million, or 8.3%, compared to 2007. The increase in SG&A expenses is attributable to the following:

	(in millions)	**% Change**
Organic growth	$ 3.2	1.0%
Foreign exchange	7.7	2.3
Acquisitions	17.8	5.4
Disposal	(1.2)	(0.4)
Total	$ 27.5	8.3%

The organic increase in SG&A expenses was primarily due to increased incentive compensation costs and increased variable European selling expenses due to increased sales volumes partially offset by decreased shipping costs and other variable North American selling expenses due to decreased sales volumes. The increase in SG&A expenses from foreign exchange was primarily due to the appreciation of the euro, yuan and Canadian dollar against the U.S. dollar. The increase in SG&A expenses from acquisitions was due to the inclusion of Blücher and Topway. Total SG&A expenses, as a percentage of sales, was 24.7% in 2008 compared to 24.1% 2007.

Restructuring and Other (Income) Charges. In 2008, we recorded $5.6 million for severance, asset write-downs and accelerated depreciation in North America, China and Europe. In 2007, we recorded $3.2 million for asset write-downs, accelerated depreciation and severance in North America and China.

Goodwill Impairment Charge. The goodwill impairment charge in 2008 of approximately $22.0 million related to one of our North American reporting units (Water Quality). See Note 2 of notes to consolidated financial statements in this Annual Report on Form 10-K, for additional information regarding the impairment.

Operating Income. Operating income by geographic segment for 2008 and 2007 was as follows:

	Years Ended			% Change to Consolidated Operating Income
	December 31, 2008	December 31, 2007	Change	
	(Dollars in millions)			
North America	**$ 67.8**	$ 93.3	$ (25.5)	(20.3)%
Europe	**65.7**	53.6	12.1	9.6
China	**(5.7)**	7.9	(13.6)	(10.8)
Corporate	**(27.2)**	(29.1)	1.9	1.5
Total	**$ 100.6**	$ 125.7	$ (25.1)	(20.0)%

The change in operating income is attributable to the following:

						Change As a % of Consolidated Operating Income					Change As a % of Segment Operating Income			
	North America	Europe	China	Corp.	Total	North America	Europe	China	Corp.	Total	North America	Europe	China	Corp.
	(Dollars in millions)													
Organic growth	$ (2.1)	$ 5.7	$ (16.7)	$ 1.9	$ (11.2)	(1.6)%	4.5%	(13.3)%	1.5%	(8.9)%	(2.3)%	10.6%	(211.4)%	6.5%
Foreign exchange		3.9	(0.4)		3.5		3.1	(0.2)		2.9		7.3	(5.1)	
Acquisitions	(0.6)	2.7			2.1	(0.4)	2.1			1.7	(0.6)	5.0		
Disposal			0.8		0.8			0.6		0.6			10.1	
Restructuring, goodwill and other	(22.8)	(0.2)	2.7		(20.3)	(18.3)	(0.1)	2.1		(16.3)	(24.4)	(0.4)	34.2	
Total	$ (25.5)	$ 12.1	$ (13.6)	$ 1.9	$ (25.1)	(20.3)%	9.6%	(10.8)%	1.5%	(20.0)%	(27.3)%	22.5%	(172.2)%	6.5%

The decrease in consolidated organic operating income was due primarily to underutilization of capacity, in both China and, to a lesser extent, in North America caused by recessionary unit volume declines and one-off events in China such as the labor strike, a plant move and natural disasters. Also, SG&A expenses such as salaries, product liability and other fixed spending increased. These items were partially offset by higher sales and better productivity in Europe and reductions in certain SG&A expenses such as shipping, pension costs and bad debts. Corporate costs decreased as the result of lower benefit costs, including lower stock based compensation and reduced costs from our nonqualified deferred compensation plan, and lower costs related to our Sarbanes Oxley compliance efforts and reduced legal costs.

The Blücher acquisition accounts for the net increase in operating profits from acquisitions.

The net increase in operating income from foreign exchange was primarily due to the appreciation of the euro against the U.S. dollar. We cannot predict whether these currencies will continue to appreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our operating income.

Interest Income. Interest income decreased $9.4 million, or 64.8%, in 2008 compared to 2007, primarily due to cash used to fund the Blücher acquisition and the stock buy-back program initiated in November 2007, as well as, a lower interest rate environment in 2008 as compared to 2007.

Interest Expense. Interest expense decreased $0.7 million, or 2.6% in 2008 compared to 2007, primarily due to lower outstanding balances on the revolving credit facility partially offset by an increase in the average variable rates charged on the revolving credit facility.

Other (Income) Expense. Other expense increased $6.8 million, or 295.7%, in 2008 compared to 2007, primarily due to foreign currency transaction losses, losses on metal commodity transactions and negative changes in asset valuation of our nonqualified deferred compensation plan. Foreign currency transaction losses increased in China, Europe and Canada in 2008 as compared to 2007.

Income Taxes. Our effective tax rate for continuing operations increased to 34.6% for 2008 from 31.8% for 2007. The main driver of the increase was goodwill impairment. A portion of the goodwill relates to stock acquisitions, which when impaired is not tax deductible. Our European effective rate declined due to provision releases and favorable tax treatments related to the Blücher acquisition financing.

Income From Continuing Operations. Income from continuing operations in 2008 decreased $30.3 million, or 39.0%, to $47.3 million, or $1.28 per common share, from $77.6 million, or $1.99 per common share, for 2007, in each case, on a diluted basis. Repurchased shares had an accretive impact of $0.07 per common share in 2008. Income from continuing operations included an after-tax goodwill impairment charge of $17.3 million, or $0.47 per common share for 2008. Income from continuing operations for 2007 includes a tax refund of $1.9 million, or $0.05 per common share. Income from continuing operations for 2008 and 2007 included costs, net of tax, from our restructuring plan, reduction-in-force and product line discontinuances of $3.9 million, or $0.10 per common share, and $5.1 million, or $0.13 per common share, respectively. The appreciation of the euro, Chinese yuan and Canadian dollar against the U.S. dollar resulted in a positive impact on income from continuing operations of $0.07 per common share for 2008 compared to the comparable period last year. We cannot predict whether the euro, Canadian dollar or yuan will appreciate or depreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net income.

Loss From Discontinued Operations. Loss from discontinued operations in 2008 and 2007 was $0.7 million, or $0.02 per common share, and $0.2 million, or $0.01 per common share, on a diluted basis for the comparable period. The losses for 2008 and 2007 were primarily attributable to increased legal fees associated with the James Jones Litigation, as described in Part I, Item 1, "Business-Product Liability, Environmental and Other Litigation Matters." The 2007 loss was partially offset by reserve adjustments.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

Net Sales. Our net sales in each of our three geographic segments for the years ended December 31, 2007 and 2006 were as follows:

	Year Ended December 31, 2007		Year Ended December 31, 2006			
	Net Sales	% Sales	Net Sales	% Sales	Change	Change to Consolidated Net Sales
	(Dollars in millions)					
North America	$ 871.0	63.0%	$ 821.3	66.7%	$ 49.7	4.0%
Europe	452.6	32.7	367.5	29.9	85.1	6.9
China	58.7	4.3	42.0	3.4	16.7	1.4
Total	$1,382.3	100.0%	$1,230.8	100.0%	$151.5	12.3%

The increase in net sales is attributable to the following:

					Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
	North America	Europe	China	Total	North America	Europe	China	Total	North America	Europe	China
	(Dollars in millions)										
Organic growth	$ 41.0	$ 13.7	$ 8.5	$ 63.2	3.3%	1.1%	0.7%	5.1%	5.0%	3.7%	20.3%
Foreign exchange	3.9	34.1	2.4	40.4	0.3	2.8	0.2	3.3	0.5	9.3	5.8
Acquisitions	4.8	37.3	5.8	47.9	0.4	3.0	0.5	3.9	0.6	10.2	13.8
Total	$ 49.7	$ 85.1	$16.7	$151.5	4.0%	6.9%	1.4%	12.3%	6.1%	23.2%	39.9%

The organic growth in net sales in North America was primarily due to increased unit selling prices and increased unit sales of certain product lines into the wholesale market. Our sales into the wholesale market in 2007, excluding the sales from the acquisition of Calflex Manufacturing, Inc. (Calflex) and Topway, grew by 7.7% compared to 2006. This was primarily due to increased sales of our backflow products. Our sales into the North American DIY market in 2007 decreased by 4.4% compared to 2006 primarily due our discontinuing certain lower margin product lines, partially offset by price increases and new product rollouts.

The acquired growth in net sales in North America was due to the inclusion of net sales of Calflex, acquired on June 2, 2006, and Topway, acquired on November 9, 2007.

The organic sales growth in Europe was broad-based, especially in Eastern Europe and in the OEM market, which was partially offset by a weak German market. Our sales into the wholesale and OEM markets in 2007, excluding the sales from the acquisitions of ATS Expansion Group (ATS), Kim Olofsson Safe Corporation (Kimsafe) and Black Teknigas, Limited (Teknigas), grew by 3.1% and 4.4%, respectively, compared to 2006.

The acquired growth in net sales in Europe was due to the inclusion of the net sales of ATS, acquired on May 19, 2006, Kimsafe, acquired on June 7, 2006, and Teknigas, acquired on August 14, 2006.

The organic sales growth in China was primarily due to increased export sales to Europe, increased sales into the domestic Chinese markets and the elimination of the one-month reporting lag in two of our Chinese entities.

The acquired growth in net sales in China was due to the inclusion of net sales of Changsha Valve Works (Changsha), acquired on April 26, 2006.

The increases in net sales due to foreign exchange in North America, Europe and China were primarily due to the appreciation of the Canadian dollar, euro and yuan, respectively, against the U.S. dollar.

Gross Profit. Gross profit and gross profit as a percent of net sales (gross margin) for 2007 and 2006 were as follows:

	Year Ended December 31,		**Point Change**
	2007	**2006**	
	(dollars in millions)		
Gross profit	$461.6	$425.0	
Gross margin	33.4%	34.5%	(1.1%)

Gross margin decreased in 2007 compared to 2006 primarily due to increased material costs, the write-off of inventory related to the discontinuance of certain product lines and an increase in our workers' compensation reserve primarily due to a change in estimate. The North American margin for 2007 was affected by a charge related to our discontinuance of certain product lines and for cost increases for copper-based alloys and stainless steel products, which exceeded realized sales price increases for most of the year. The European margin remained relatively flat primarily due to higher margins contributed by price increases that were offset by increased material costs and a shift in sales to lower margin products primarily in the OEM market. Our China segment's gross margin decreased primarily due to higher material costs, underutilized capacity in certain locations primarily due to the relocation of our joint venture facility, a charge related to our discontinuance of certain product lines, value added tax increases and a shift in product mix.

Selling, General and Administrative Expenses. SG&A expenses for 2007 increased $32.5 million, or 10.8%, compared to 2006. The increase in SG&A expenses is attributable to the following:

	(in millions)	% Change
Organic growth	$ 13.1	4.4%
Foreign exchange	7.9	2.6
Acquisitions	11.5	3.8
Total	$ 32.5	10.8%

The organic increase in SG&A expenses was primarily due to increased product liability costs, increased stock-based compensation costs and increased variable selling expenses due to increased sales volumes partially offset by decreased incentive compensation costs. The increase in SG&A expenses from foreign exchange was primarily due to the appreciation of the euro, Canadian dollar and the yuan against the U.S. dollar. The increase in SG&A expenses from acquisitions was due to the inclusion of Changsha, ATS, Calflex, Watts Valve (Ningbo) Co, Ltd. (Ningbo), Kimsafe, Teknigas and Topway. Total SG&A expenses, as a percentage of sales, were 24.1% in 2007 compared to 24.4% 2006.

Restructuring and Other (Income) Charges. In 2007, we recorded $3.2 million for asset write-downs, accelerated depreciation and severance in North America and China. In 2006, we recorded income of $5.7 million primarily due to a gain of approximately $8.2 million related to the sale of two buildings in Italy partially offset by a charge of $2.5 million primarily for severance costs related to our European restructuring programs.

Operating Income. Operating income by geographic segment for 2007 and 2006 was as follows:

Years Ended