

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended 12/31/02

or

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

Commission file number 1-11499

WATTS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

04-2916536

(I.R.S. Employer Identification No.)

815 Chestnut Street, North Andover, MA

(Address of principal executive offices)

01845

(Zip Code)

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

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

Class A Common Stock, par value \$.10 per share

Name of exchange on which registered: **New York Stock Exchange**

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No ☐

Aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant on June 28, 2002 was \$353,381,531.

As of March 18, 2003, 18,873,740 shares of Class A Common Stock, \$.10 par value, 8,185,224 shares of Class B Common Stock, \$.10 par value, of the Registrant were outstanding.

Documents Incorporated by Reference

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on May 20, 2003, 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, our financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. You should not rely on forward-looking statements, because 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 7—"Management's Discussion and Analysis of Financial Condition and Results of Operations—Certain Factors Affecting Future Results." 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 we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Overview

For more than 125 years, we have designed and manufactured valves and related products that promote the comfort and safety of people and the quality and conservation of water use in commercial, residential and light industrial applications. Watts has focused on the valve industry since our inception in 1874, when we were founded to design and produce steam regulators for New England textile mills and power plants. We were incorporated in Delaware in 1985.

Our primary objective is to increase sales and earnings by expanding into new markets, growing internal sales within existing and new markets, making selected acquisitions and reducing manufacturing costs.

We intend to expand into new markets by continually targeting selected new markets based on growth potential. For example, we entered the do-it-yourself (DIY) market through our acquisition of Jameco Industries in July 1994. Since then, we have increased our DIY sales to approximately \$124 million, primarily through internal growth driven by merchandising and new product introduction.

We intend to grow internal sales within existing and new markets and continue to introduce products in both existing and new markets. We are focused on enhancing our preferred brands, developing new complementary products, promoting plumbing code development to drive sales of safety and water quality products and continuously improving merchandising in both the DIY and wholesale distribution channels. We promote the adoption of plumbing codes that often support the use of our products, such as thermostatic mixing valves, that reduce the risk of being scalded by water.

We are selective in making acquisitions and have completed nine acquisitions in the last two years. Our acquisitions have increased our market share in our core markets and provided us access to new complementary markets as well as access to lower-cost manufacturing operations worldwide. Our acquisition of F&R Foerster and Rothmann GmbH in July 2002 expanded our overall gauge product offering and increased our presence in both the French and German markets. Our acquisition of Hunter Innovations in May 2002 provided next-generation technology for backflow prevention devices for both the fire protection and plumbing markets. The improved product features include lighter weight, more compact design, better flow characteristics, improved serviceability and multiple end-connection options. Our acquisition of Powers Process Controls in September 2001 broadened our

product line offering in the thermostatic mixing valves into the commercial and institutional facilities. Our acquisition of Premier Manufactured Systems in June 2001 marked our entry into the water filtration products market.

We have made a commitment to significantly reduce our manufacturing costs. We are consolidating factories and reducing our manufacturing capacity in both North America and Europe, while at the same time expanding our manufacturing capacity in lower cost areas of the world. In 2002, we established our second joint venture in China, as well as began construction of a wholly owned factory in Tianjin, China, which we expect to be operational during 2003. We will manufacture some of our traditional bronze water control valves and backflow prevention devices in this new facility. We acquired a factory in Tunisia during 2002, which currently manufactures our thermostatic control product line, and we will be transferring additional production from some of our European factories to Tunisia during 2003. We completed the

expansion of our Bulgarian plant in 2002 and are currently manufacturing our line of temperature and pressure gauges at this facility. Most importantly, we have organized our manufacturing restructuring program in a manner that we believe ensures the continued quality and timely delivery of our products to customers, and we will continue to seek opportunities for further cost reductions.

Recent Developments

On August 7, 2002, we announced the appointment of a new Chief Executive Officer, Patrick S. O'Keefe, to replace Timothy P. Horne who retired as Chairman of the Board, Chief Executive Officer and President. Mr. Horne retired as an employee of the Company on December 31, 2002. Mr. Horne is a consultant to the Company and remains as a Director. The Board has nominated and elected Mr. Gordon W. Moran as its non-executive Chairman. Mr. Moran has served on the Board since 1990. Mr. O'Keefe has also been elected to the Board.

On July 29, 2002, we acquired F&R Foerster and Rothmann GmbH (F&R) located in Neuenburg am Rhein, Germany, for approximately \$2.3 million in cash less assumed net debt of \$0.8 million. F&R manufactures and distributes a line of gauges predominantly to the French and German OEM markets. F&R's annual revenue, prior to the acquisition, was approximately 4 million euro. Our December 31, 2002 Consolidated Balance Sheet contains a purchase price allocation consistent with the guidelines in Financial Accounting Standards Board Statement No. 141, "Business Combinations" (FAS 141).

On July 15, 2002, we acquired ADEV Electronic SA (ADEV) located in Rosieres, France and its closely affiliated distributor, E.K. Eminent A.B. (Eminent) located in Gothenburg, Sweden for approximately \$12.9 million in cash less assumed net debt of \$3.5 million. ADEV also has a low cost manufacturing facility located in Tunisia. ADEV manufactures and distributes electronic systems predominantly to the OEM market. Their product lines include thermostats and controls for heating, ventilation and air conditioning, control systems for hydronic and electric floor warming systems, and controls for other residential applications. Eminent distributes electronic controls, mechanical thermostats and other electric control related products throughout the European Nordic countries. The two companies' combined annual revenue preceding the acquisition was approximately 30 million euro. Our December 31, 2002 Consolidated Balance Sheet contains a purchase price allocation consistent with the guidelines in FAS 141.

On May 9, 2002, we acquired Hunter Innovations of Sacramento, California for \$25 million, of which approximately \$10 million was paid in cash at the closing and the balance in interest bearing notes, payable in equal installments over the next four years. Hunter Innovations was founded in 1995 and has developed a line of large backflow prevention devices that represent a significant advance in technology. The improved product features that are important to the backflow prevention markets include lighter weight, more compact design, better flow characteristics, improved serviceability and multiple end-connection and shutoff valve options. Hunter Innovations' sales during the twelve months preceding the acquisition were approximately \$1.5 million. Unlike most of our acquisitions, Hunter did

not have significant historical revenues or earnings. Nonetheless, the purchase price was based on projected revenues and earnings as utilized in other acquisitions. During the quarter ending September 30, 2002, we obtained a third-party valuation to allocate the purchase price. Consistent with the guidelines in FAS 141, the allocation for goodwill was approximately \$16.8 million and approximately \$11.7 million was for intangibles, which are classified in "Other Assets: Other" in our Consolidated Balance Sheet as of December 31, 2002. Of the \$11.7 million of acquired intangible assets, \$9.2 million was assigned to unpatented technology that is not currently subject to amortization and \$2.5 million to patents (twenty-year useful life). The \$16.8 million of goodwill was assigned to the North American segment, none of which is deductible for tax purposes.

On March 5, 2002, we entered into a joint venture with the Yuhuan County Cheng Guan Metal Hose Factory (Cheng Guan) located in Taizhou, Zhejiang Province of the People's Republic of China. Cheng Guan, with annual sales prior to the transaction of approximately \$15 million, is a manufacturer of a variety of plumbing products sold both into the Chinese domestic market and export markets. Its product lines were contributed to the joint venture and include hose, hose connectors, multi-layer tubing and stainless steel braided hose. The joint venture is owned 60% by us and 40% by our Chinese partner. We will invest \$7.8 million to obtain this 60% interest, \$5.0 million of which had been paid as of December 31, 2002. Our December 31, 2002 Consolidated Balance Sheet contains a purchase price allocation of the joint venture. The allocation for goodwill was approximately \$3 million and approximately \$2 million was for other amortizable intangibles, which are classified in "Other Assets: Other" in our Consolidated Balance Sheet as of December 31, 2002.

We are in the process of implementing a plan to consolidate several of our manufacturing plants both in North America and Europe. At the same time we are expanding our manufacturing capacity in China and other low cost areas of the world. The implementation of this manufacturing restructuring plan began during the fourth quarter of fiscal 2001. The projects for which charges were recorded in the fourth quarter of fiscal 2001 are essentially complete. During 2002, we decided to expand the scope of the manufacturing restructuring plan and transfer certain production to low cost manufacturing plants in Tunisia and Bulgaria. The expanded plan is expected to be completed by the end of fiscal 2003. We anticipate that the pre-tax cost of the manufacturing restructuring plan will be \$12.8 million. We recorded pre-tax manufacturing restructuring and other costs of \$5.8 million in the fourth quarter of fiscal 2001 and \$4.1 million for fiscal 2002. We anticipate recording additional pre-tax costs of approximately \$2.9 million in fiscal 2003 as we continue to implement the program. The manufacturing restructuring and other costs recorded in 2001 and 2002 consist primarily of severance costs, asset write-downs and accelerated depreciation. The severance costs, which have been recorded as restructuring, are for 38 employees in manufacturing and administration groups, 26 of whom have been terminated as of December 31, 2002. Asset write-downs consist primarily of write-offs of inventory related to product lines that we have

discontinued as part of this restructuring plan and they have been recorded in cost of goods sold. Accelerated depreciation is based on shorter remaining estimated useful lives of certain fixed assets and has been recorded in cost of goods sold. Other costs consist primarily of removal and shipping costs associated with relocation of manufacturing equipment and has been recorded in cost of goods sold. The tax benefits of costs incurred and asset write-downs will approximate the amount of cash outlays to implement this program, which would allow us to complete the restructuring plan with a minimum consumption of cash. Following the completion of the plan, we estimate an annual pre-tax savings of approximately \$5.0 million at current production volume.

Products

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. We believe that, within a majority

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of the markets we serve, we have the broadest product lines in terms of design distinction, size and configuration. Our principal product lines include:

- backflow preventers for preventing contamination of potable water caused by reverse flow within water supply lines and fire protection systems;
- flow control valves, including ball valves, butterfly valves, gate valves and globe valves;
- thermostatic mixing valves for tempering water in commercial and residential applications;
- a wide range of water pressure regulators for both commercial and residential applications;
- water supply and drainage products for commercial and residential applications;
- temperature and pressure relief valves for water heaters, boilers and associated systems; and
- point-of-use water filtration and reverse osmosis systems for both commercial and residential applications.

Customers and Markets

We sell our products to plumbing, heating and mechanical wholesale distributors, major DIY chains and original equipment manufacturers (OEMs).

Wholesalers. Approximately 67% of our 2002 sales were to wholesale distributors for both commercial and residential applications. We rely on commissioned representative organizations, some of which maintain a consigned inventory of our products, to market our product lines.

DIY retail. Approximately 20% of our 2002 sales were to DIY retail customers, primarily in North America. Our DIY customers demand less technical products, but are highly receptive to innovative designs and new product ideas. Our DIY retail sales over the past several years have increased dramatically as a result of our development of unique new products and successful merchandising efforts.

OEMs. Approximately 13% of our 2002 sales were to OEMs in both North America and Europe. In North America, our typical OEM customers are water heater manufacturers, equipment manufacturers, who need flow control devices, and water systems manufacturers, who need backflow preventers. Our sales to OEMs in Europe are primarily to boiler manufacturers and radiant systems manufacturers.

Our largest customer, The Home Depot, Inc., accounted for approximately \$63.0 million, or 10.2%, of our total net sales in 2002. Our second largest customer represented approximately 3.5% of our total net sales in 2002. Our top ten customers accounted for approximately 25.4% of our total net sales in 2002; thousands of other customers comprised the remaining 74.6%.

Marketing and Sales

We rely primarily on commissioned, independent representatives, some of which maintain a consigned inventory of our products, to market our product lines. 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 our existing plumbing and heating wholesalers. In addition, we sell products directly to certain large OEMs and private label accounts.

Manufacturing

We have fully integrated and highly automated manufacturing capabilities, including bronze and iron foundries, machining, plastic 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 base 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.

Our capital expenditure budget for fiscal 2003 is \$18.0 million, primarily for manufacturing machinery and equipment. We have substantially completed our implementation of an integrated enterprise-wide software system (ERP) in our U.S. and Canadian locations with a focus on inventory management, production scheduling and electronic data interchange. This has enabled us to provide better service to our customers, improve working capital management, lower transaction costs and improve e-commerce capabilities.

Capital expenditures and depreciation and amortization for the following historical periods were as follows:

Period	Capital Expenditures	Depreciation and Amortization
Twelve months ending December 31, 2002	\$ 19.6 million	\$ 22.3 million
Twelve months ending December 31, 2001	\$ 16.0 million	\$ 23.7 million
Twelve months ending December 31, 2000	\$ 14.2 million	\$ 20.1 million

Raw Materials

The three most significant raw materials used in our production processes are bronze ingot, brass rod and cast iron. While we historically have not experienced significant difficulties in obtaining these commodities in quantities sufficient for our operations, there have been significant changes in their prices. Our gross profit margins are adversely affected to the extent that the selling prices of our products do not increase proportionately with increases in the cost of bronze ingot, brass rod and cast iron. Any significant unanticipated increase or decrease in the prices of these commodities could materially affect our results of operations. 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 and passing increases in commodity costs to our customers, to the maximum extent possible, when they occur. Additionally, on a limited basis, we use commodity futures contracts to manage this risk. We did not purchase any commodity futures contracts during fiscal 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk."

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, the International Association of Plumbing and Mechanical Officials (I.A.P.M.O.), Factory Mutual (FM) and Underwriters Laboratory (UL). These standards are incorporated into state and municipal plumbing and heating, building and fire protection codes.

European regulatory standards vary by country. The major standards which our products must meet are AFNOR (France), DVGW (Germany), UNI (Italy), KIWA (Netherlands) and WRAS (United Kingdom). Certain products must be approved by The European Committee for Standardization (CEN).

Together with our manufacturers' representative organizations, we have consistently advocated 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 significant product development, 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.

Product Development and Engineering

We maintain our own product development and design teams in North America, Europe and Asia that continuously enhance our existing products and develop new products. We maintain sophisticated product development and testing laboratories. Our efforts in this area have been particularly successful in the retail DIY market, which values innovation in product design.

Competition

The domestic and international markets for valves are intensely competitive and require us to compete against some companies possessing greater financial, marketing and other resources than ours. Our management considers 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 valve industry and that our position in the industry is attributable in significant 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 \$42.7 million at February 14, 2003 and \$25.1 million at February 8, 2002. We do not believe that our backlog at any point in time is indicative of future operating results.

Employees

As of December 31, 2002, our domestic and foreign operations employed approximately 3,765 people, plus 1,282 employees in our joint ventures in China. None of our employees in North America is covered by collective bargaining agreements. Our European employees are subject to the traditional national collective bargaining agreements. We believe that our employee relations are good.

Available Information

We maintain a website with the address www.wattsind.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.

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 the past five years:

Name	Age	Position
Patrick S. O'Keefe	50	Chief Executive Officer, President and Director
William C. McCartney	48	Chief Financial Officer, Treasurer and Secretary
Ernest E. Elliott	50	Executive Vice President of Wholesale Sales and Marketing
Jeffrey A. Polofsky	43	Executive Vice President of Retail Sales and Marketing
Robert T. McLaurin	71	Corporate Vice President of Asian Operations
Paul A. Lacourciere	47	Corporate Vice President of Manufacturing
Dennis Cawte	51	Group Managing Director Europe
Lester J. Taufen	59	General Counsel, Vice President of Legal Affairs and Assistant Secretary
Timothy P. Horne	64	Director
Kenneth J. McAvoy(1)	62	Director
Gordon W. Moran(1)(2)	63	Non-Executive Chairman of the Board and

Director		
Daniel J. Murphy, III(1)(2)	60	Director
Roger A. Young(1)	56	Director

- (1) Member of the Audit Committee
- (2) Member of the Stock Option and Compensation Committee

Patrick S. O'Keefe joined our Company in August 2002. Prior to joining our Company, Mr. O'Keefe 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 has 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 April 1988 to December 1999. Mr. McCartney was appointed Chief Financial Officer, Treasurer and Secretary on January 1, 2000.

Ernest E. Elliott joined our Company in 1986, serving in a variety of sales and marketing roles. Mr. Elliott was appointed Vice President of Sales in 1991 and Executive Vice President of Wholesale Sales and Marketing in 1996. Prior to joining our Company, Mr. Elliott was Vice President of BTR Inc.'s Valve Group, a diversified manufacturer of industrial and commercial valve products.

Jeffrey A. Polofsky joined our Company in October 1998 as the Vice President and General Manager of Anderson Barrows Metals Company. He was named Executive Vice President of Retail

Sales and Marketing in January 2000. Prior to joining the Company, Mr. Polofsky was employed at Desa International, a manufacturer of consumer hard goods, from 1988 to 1998.

Robert T. McLaurin was appointed Corporate Vice President of Asian Operations in August 1994. He served as the Senior Vice President of Manufacturing of Watts Regulator Co. from 1983 to August 1994. He joined Watts Regulator Company as Vice President of Manufacturing in 1978.

Paul A. Lacourciere joined our Company in 1986 and became Vice President of New Hampshire operations in 1989. He was appointed Vice President of Manufacturing for our Watts Regulator division in 1991 and moved to corporate as Executive Vice President in 1993. Mr. Lacourciere served as President of the Watts Regulator division for two years before taking over as Corporate Vice President of Manufacturing in 1997.

Dennis Cawte joined our Company in October 2001 and was appointed Group Managing Director Europe. Prior to joining our Company, Mr. Cawte was President of Precision Castparts Corp., a manufacturer of components and castings to the aeronautical industry, from 1999 to 2001. Mr. Cawte had also worked for Keystone Valve International, a manufacturer and distributor of industrial valves, for 20 years, his most recent position was the Director of Northern European Operations.

Lester J. Taufen joined our Company in January 1999 as Associate Corporate Counsel. He was appointed General Counsel and Vice President of Legal Affairs, and Assistant Secretary in January 2000. Prior to joining our Company, Mr. Taufen was employed for 13 years at Elf Atochem North America, a chemical manufacturing company, serving as Senior Counsel.

Timothy P. Horne has been a Director since 1962. Mr. Horne was employed by Watts since September 1959 and served as our President from 1976 to 1978, from 1994 to April 1997 and from October 1999 to August 2002. He served as Chief Executive Officer from 1978 to August 2002, and he served as Chairman of our Board of Directors from April 1986 to August 2002. Mr. Horne retired from Watts on December 31, 2002.

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

Gordon W. Moran 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 been the Chairman of Northmark Bank, a commercial bank, since August 1987. Prior to forming Northmark Bank in 1987, Mr. Murphy 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. Mr. Murphy is a Director of Bay State Gas Company and CIRCOR International.

Roger A. Young has been the Chairman of the Board of Directors of Bay State Gas Company, a wholly-owned subsidiary of NiSource, since 1996 and has served on its Board since 1975. Mr. Young was elected President and Chief Operating Officer of Bay State Gas Company in 1981 and Chief Executive Officer in 1990, serving in such positions until 1999. Mr. Young has also been a Director of NiSource since 1999.

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, which may arise from product defects and failures.

James Jones Litigation

On June 25, 1997, Nora Armenta (the Relator) sued James Jones Company, Watts Industries, which formerly owned James Jones, Mueller Co. and Tyco International (U.S.) in the California Superior Court for Los Angeles County. By this complaint and an amended complaint filed on November 4, 1998 (First Amended Complaint), Armenta, a former employee of James Jones, sued on behalf of 34 municipalities as a qui tam plaintiff under the California False Claims Act (the Armenta case). Late in 1998, the Los Angeles Department of Water and Power (LADWP) intervened. In December 2000, the court allowed the Relator to file a Second Amended Complaint, which added a number of new cities and water districts as plaintiffs and brought the total number of plaintiffs to 161. On June 3, 2002, the California Superior Court excluded 47 cities from this total of 161. The Relator was not able to obtain appellate modification of this order. To date, 14 of the total number of plaintiffs have intervened.

The First Amended Complaint alleges that our former subsidiary (James Jones Company) sold products that did not meet contractually specified standards used by the named municipalities for their water systems and falsely certified that such standards had been met. The Relator claims that these municipalities were damaged by their purchase of these products and seeks treble damages, legal costs, attorneys' fees and civil penalties under the False Claims Act.

The LADWP's intervention, filed on December 9, 1998, adopted the First Amended Complaint and added claims for breach of contract, fraud and deceit, negligent misrepresentation and unjust enrichment. The LADWP also sought past and future reimbursement costs, punitive damages, contract difference in value damages, treble damages, civil penalties under the False Claims Act and costs of the suit.

One of the First Amended Complaint's allegations is the suggestion that because some of the purchased James Jones products are out of specification and contain more lead than the `85 bronze specified, a risk to public health might exist. This contention is predicated on the average difference of about 2% lead content in `81 bronze (6% to 8% lead) and `85 bronze (4% to 6% lead) alloys and the assumption that this would mean increased consumable lead in public drinking water. The evidence and discovery available to date indicate that this is not the case.

In addition, bronze that does not contain more than 8% lead, like `81 bronze, is approved for municipal and home plumbing systems by municipalities and national and local codes, and the Federal Environmental Protection Agency 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 June 2001, we and the other defendants reached a proposed settlement with the LADWP, one of the plaintiffs, which was approved by the California Superior Court on October 31, 2001 and by the Los Angeles City Council on December 14, 2001.

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. The Relator also seeks civil penalties of \$10,000 for each false claim and alleges that defendants are responsible for tens of thousands of false claims. We settled with the City of Los Angeles, by far the most significant city, for \$5.7 million plus the Relator's statutory share and attorneys' fees. Co-defendants will contribute \$2.0 million toward this settlement. The court has required the Relator to select cities with the strongest claims to be tried first. After we settled with the City of Los Angeles, the Relator made an offer to settle the balance of this case for \$121.9 million, which we have rejected. We have a reserve in the amount of \$10.5 million after-tax with respect to the James Jones Litigation in our consolidated balance sheet as of December 31, 2002. We believe on the basis of all available information, that this reserve is adequate to cover our probable and reasonably estimable losses resulting from the James

Jones Litigation. However, litigation is inherently uncertain, and we believe that there exists a reasonable possibility that we may ultimately incur losses in the James Jones Litigation in excess of the amount accrued. We are currently unable to make an estimate of the range of any additional losses.

On February 14, 2001, we filed a complaint in the California Superior Court against our insurers for coverage of the claims in the Armenta case. The James Jones Company filed a similar complaint, the cases were consolidated, and on October 30, 2001 the California Superior Court made a summary adjudication ruling that Zurich American Insurance Company must pay all reasonable defense costs incurred by us in the Armenta case since April 23, 1998 as well as our future defense costs in this case until its final resolution. On September 5, 2002, in compliance with the October 30, 2001 ruling and a subsequent California Superior Court order, Zurich paid us approximately \$9.5 million for defense costs with 10% interest that we had previously submitted to Zurich for payment. On October 24, 2002, the California Superior Court made another summary adjudication ruling that Zurich must indemnify and pay us for the amounts we must pay under the settlement agreement with the City of Los Angeles, and, on January 16, 2003, Zurich paid us \$2.7 million in compliance with this order. Zurich has asserted that all amounts paid are subject to reimbursement under Deductible Agreements between the Company and Zurich and as such we have not recorded income associated with these payments. Management and counsel anticipate that we will still be challenged but that we will ultimately prevail on this issue. Zurich has sought appellate review of the orders requiring it to pay the \$9.5 million of defense costs and to indemnify us for the settlement with the City of Los Angeles, and the California Court of Appeal has agreed to review the orders that require payment of defense costs. We are currently unable to predict the outcome of the litigation relating to the Los Angeles indemnification coverage. We intend to continue to contest vigorously this insurance coverage case and the related litigation.

Based on management's assessment, we do not believe that the ultimate outcome of the James Jones case will have a material adverse effect on our liquidity, financial condition or results of operations. While this assessment is based on all available information, litigation is inherently uncertain, and the actual liability to us to fully resolve this litigation cannot be predicted with any certainty. We intend to continue to contest vigorously the James Jones case and the related litigation.

Environmental

Certain of our operations generate solid and hazardous wastes, which are disposed of elsewhere by arrangement with the owners or operators of disposal sites or with transporters of such waste. Our foundry and other operations are subject to various federal, state and local laws and regulations relating to environmental quality. Compliance with these laws and regulations requires us to incur expenses and monitor our operations on an ongoing basis. We cannot predict the effect of future requirements on our capital expenditures, earnings or competitive position due to any changes in federal, state or local environmental laws, regulations or ordinances.

For several years, the New York Attorney General (NYAG) has threatened to bring suit against approximately 16 Potentially Responsible Parties (PRPs), including Watts for incurred remediation costs and for operation and maintenance costs that will be incurred in connection with the cleanup of a landfill site in Babylon, Long Island. The NYAG has identified recovery numbers between \$19 million and \$24 million, but it is too early to know what the final recovery number will be, what the final number of PRPs will be or what proportion of the final costs may be allocated to us.

In addition to the Babylon Site, we are currently a party to or otherwise involved in various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a limited number of sites. Based on facts presently known to us, we do not believe that the outcome of these environmental proceedings will have a material adverse effect on our financial condition or results of operations. Given the nature and scope of our manufacturing operations, there can be no assurance that we will not become subject to other environmental proceedings and liabilities

in the future which may be material to us. See Note 15 of the Notes to the Consolidated Financial Statements.

Asbestos Litigation

As of December 31, 2002, we are a defendant in approximately 60 actions filed in Mississippi and New Jersey state courts and alleging injury or death as a result of exposure to asbestos. These filings typically name multiple defendants, and are filed on behalf of many plaintiffs. They do not identify any particular products of ours as a source of asbestos exposure, and there is no reason to conclude that these filings will have a material effect on our liquidity, financial condition or results of operations.

Chinese Joint Venture

In the course of the audit of our consolidated financial statements for the year ended December 31, 2002, we became aware of a number of unauthorized actions taken by our joint venture partner in Tianjin Tanggu Watts Valve Company Limited, or TWT, our joint venture located in Tianjin, China, that may result in liability to us.

First, our joint venture partner diverted cash from and diverted cash receipts into an account designated to cover various employee benefit obligations of TWT, to pay other expenses, including payment of other TWT expenses and for other purposes. We believe that this unauthorized activity commenced in 1994 and continued through the year ended December 31, 2002. In the quarter ended December 31, 2002, we recorded a charge, net of tax benefit, of \$164,368 to account for unrecorded expenses and other identified liabilities resulting from the unauthorized activity in the account over the eight-year period.

Second, our joint venture partner, acting without our authorization, appears to have obtained from the Chinese government business licenses on behalf of a number of distributors of TWT products that may cause TWT to be liable for unsatisfied obligations, if any, of these distributors of TWT products. At this time, we are unable to estimate the amount of any such liabilities. We are taking action to rescind any unauthorized transactions and to minimize any liability to us that may arise as a result of these actions.

We are continuing to gather information with respect to these matters. Management does not believe the contingencies relating to either the account noted above or the liabilities arising from the business licenses will result in a material impact on the Company's financial statements. See Note 19 of the Notes to the Consolidated Financial Statements.

Other Litigation

Other lawsuits and proceedings or claims, arising from the ordinary course of operations, are also pending or threatened against us and our subsidiaries. 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 financial condition or results of operation. See Note 15 of the Notes to the Consolidated Financial Statements .

Item 2. PROPERTIES.

We maintain 40 facilities worldwide with our corporate headquarters located in North Andover, Massachusetts. The manufacturing operations include five casting foundries, two of which are located in the United States, one in Europe and two in Tianjin, China, and we maintain one yellow brass forging foundry located in Italy. Castings and forgings from these foundries and other components are machined and assembled into finished valves at 25 manufacturing facilities located in the United States, Canada, Europe and China. Many of these facilities contain sales offices or warehouses from which we ship finished goods to customers and commissioned representative organizations. All our operating facilities and the related real estate are owned by us, except the buildings and land located in Tianjin, China which are leased by our joint venture, with a remaining term of approximately 23 years, the land on which our manufacturing facility is located in Taizhou, China, with a remaining term of 50 years and except for the following facilities, each of which is leased:

Type of Facility	Location	Lease Expiration
Manufacturing	Springfield, MO	2004
Manufacturing	Phoenix, AZ	2010
Manufacturing	Woodland, CA	2008
Manufacturing	Sacramento, CA	2005
Warehouse	Reno, NV	2003
Sales Office	Kennesaw, GA	2007
Sales Office	Des Plaines, IL	2008
Manufacturing	Rosieres, France	2015
Manufacturing	Monastir, Tunisia	2004
Manufacturing	Neuenburg am Rhein, Germany	2004
Manufacturing	Barcelona, Spain	2004
Sales Office	Evesham, UK	2016
Sales Office	Molndal, Sweden	2007
Sales Office	Gliwice, Poland	2003
Sales Office	Vilnius, Lithuania	2003
Warehouse	Wingene, Belgium	2003
Warehouse	Chartres, France	2004

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. We believe that our manufacturing facilities are currently operating at a level that our management considers normal capacity. This utilization is subject to change as a result of increases or decreases in sales.

Item 3. LEGAL PROCEEDINGS.

Item 3(a). We are from time to time involved in various legal and administrative procedures. See Part I, Item 1, "Business—Product Liability, Environmental and Other Litigation Matters".

Item 3(b). See Part I, Item 1, "Business—Product Liability, Environmental and Other Litigation Matters".

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 THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Market Information

The following tabulation sets forth the high and low sales prices of our Class A Common Stock on the New York Stock Exchange during fiscal 2002, fiscal 2001 and fiscal 2000 and cash dividends paid per share.

	2002			2001			2000		
	High	Low	Dividend	High	Low	Dividend	High	Low	Dividend
First Quarter	\$ 17.22	\$ 13.82	\$ 0.06	\$ 17.20	\$ 11.75	\$ 0.06	\$ 15.50	\$ 12.38	\$.0875
Second Quarter	20.00	16.05	0.06	18.10	14.15	0.06	13.38	10.50	0.06
Third Quarter	20.12	15.82	0.06	16.30	11.70	0.06	13.00	9.56	0.06
Fourth Quarter	18.30	14.80	0.06	15.40	12.75	0.06	13.88	9.75	0.06

There is no established public trading market for our Class B Common Stock, which is held exclusively by members of the Horne family and management. 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 fiscal 2002, 2001 and 2000 were \$6,490,000, \$6,422,000 and \$7,107,000, 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 14, 2003 was 140. We believe that the number of beneficial shareholders of our Class A Common Stock was approximately 2,459 as of February 14, 2003. The number of record holders of our Class B Common Stock as of February 14, 2003 was 11.

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 thousands, except per share information)

Twelve(1) Months Ended 12/31/02	Twelve(2) Months Ended 12/31/01	Twelve(3) Months Ended 12/31/00	Six(4)(5)(6) Months Ended 12/31/99	Twelve(3)(5) Months Ended 6/30/99	Twelve(5) Months Ended 6/30/98
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Selected Data

Net sales	\$	615,526	\$	548,940	\$	516,100	\$	261,019	\$	477,869	\$	444,73
Income from continuing operations		32,622		26,556		31,171		16,468		29,454		28,12
Income/(loss) from discontinued operations, net of taxes		—		—		(7,170)		(1,226)		6,502		25,24
Net income		32,622		26,556		24,001		15,242		35,956		53,36
Total assets		634,512		520,470		482,025		487,078		637,742		552,89
Long-term debt, net of current portion		56,276		123,212		105,377		123,991		118,916		71,64
Income per share from continuing operations-diluted		1.21		0.99		1.17		0.61		1.10		1.0
Income/(loss) per share from discontinued operations-diluted		—		—		(0.27)		(0.05)		0.24		0.9
Net income per share-diluted		1.21		0.99		0.90		0.56		1.34		1.9
Cash dividends declared per common share	\$	0.24	\$	0.24	\$	0.268	\$	0.175	\$	0.35	\$	0.3

- (1) For the fiscal year ended December 31, 2002, net income includes the following pre-tax costs: restructuring of \$638,000; other costs consist of: inventory and other asset write-downs and accelerated depreciation of \$2,491,000; and \$960,000 of other related charges. The after-tax cost of these items was \$2,552,000.
- (2) For the fiscal year ended December 31, 2001, net income includes the following pre-tax costs: restructuring of \$1,454,000; other costs consist of: inventory and other asset write-downs and accelerated depreciation of \$4,300,000; and \$77,000 of other related charges. The after-tax cost of these items was \$3,593,000.
- (3) 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 fiscal 2000 and 1999 relate to legal and settlement costs associated with the James Jones litigation. The loss, net of taxes, consists of \$7,170,000 and \$3,000,000 for the twelve months ended December 31, 2000 and the twelve months ended December 31, 1999, respectively.
- (4) For the six months ended December 31, 1999, net income includes restructuring and other costs of \$1,460,000 pre-tax or \$861,000 net of tax.
- (5) On October 18, 1999, we spun-off our industrial and oil and gas businesses into a separate publicly-traded company, CIRCOR International, Inc., or CIRCOR. Under the terms of the spin-off transaction, we distributed to our shareholders a tax-free dividend of one share of CIRCOR common stock for every two shares of our common stock owned as of the record date.
- (6) In May 1999, we changed our fiscal year end from June 30 to a calendar year. As a result, we reported a six-month transition period ending December 31, 1999.

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

On August 7, 2002, we announced the appointment of a new Chief Executive Officer, Patrick S. O'Keefe, to replace Timothy P. Horne who retired as Chairman of the Board, Chief Executive Officer and President. Mr. Horne retired as an employee of the Company on December 31, 2002. Mr. Horne is a consultant to the Company and remains as a Director. The Board has nominated and elected Mr. Gordon W. Moran as its non-executive Chairman. Mr. Moran has served on the Board since 1990. Mr. O'Keefe has also been elected to the Board.

On July 29, 2002, we acquired F&R Foerster and Rothmann GmbH (F&R) located in Neuenburg am Rhein, Germany, for approximately \$2.3 million in cash less assumed net debt of \$0.8 million. F&R manufactures and distributes a line of gauges predominantly to the French and German OEM markets. F&R's annual revenue, prior to the acquisition, was approximately 4 million euro. Our December 31, 2002 Consolidated Balance Sheet contains a purchase price allocation consistent with the guidelines in Financial Accounting Standards Board Statement No. 141, "Business Combinations" (FAS 141).

On July 15, 2002, we acquired ADEV Electronic SA (ADEV) located in Rosieres, France and its closely affiliated distributor, E.K. Eminent A.B. (Eminent) located in Gothenburg, Sweden for approximately \$12.9 million in cash less assumed net debt of \$3.5 million. ADEV also has a low cost manufacturing facility located in Tunisia. ADEV manufactures and distributes electronic systems predominantly to the OEM market. Their product lines include thermostats and controls for heating, ventilation and air conditioning, control systems for hydronic and electric floor warming systems, and controls for other residential applications. Eminent distributes electronic controls, mechanical thermostats and other electric control related products throughout the European Nordic countries. The two companies' combined annual revenue preceding the

acquisition was approximately 30 million euro. Our December 31, 2002 Consolidated Balance Sheet contains a purchase price allocation consistent with the guidelines in FAS 141.

On May 9, 2002, we acquired Hunter Innovations of Sacramento, California for \$25 million, of which approximately \$10 million was paid in cash at the closing and the balance in interest bearing notes, payable in equal installments over the next four years. Hunter Innovations was founded in 1995 and has developed a line of large backflow prevention devices that represent a significant advance in technology. The improved product features that are important to the backflow prevention markets include lighter weight, more compact design, better flow characteristics, improved serviceability and multiple end-connection and shutoff valve options. Hunter Innovations' sales during the twelve months preceding the acquisition were approximately \$1.5 million. Unlike most of our acquisitions, Hunter did not have significant historical revenues or earnings. Nonetheless, the purchase price was based on projected revenues and earnings as utilized in other acquisitions. During the quarter ending September 30, 2002, we obtained a third-party valuation to allocate the purchase price. Consistent with the guidelines in FAS 141, the allocation for goodwill was approximately \$16.8 million and approximately \$11.7 million was for intangibles, which are classified in "Other Assets: Other" in our Consolidated Balance Sheet as of December 31, 2002. Of the \$11.7 million of acquired intangible assets, \$9.2 million was assigned to unpatented technology that is not currently subject to amortization and \$2.5 million to patents (twenty-year useful life). The \$16.8 million of goodwill was assigned to the North American segment, none of which is deductible for tax purposes.

On March 5, 2002, we entered into a joint venture with the Yuhuan County Cheng Guan Metal Hose Factory (Cheng Guan) located in Taizhou, Zhejiang Province of the People's Republic of China. Cheng Guan, with annual sales prior to the transaction of approximately \$15 million, is a manufacturer of a variety of plumbing products sold both into the Chinese domestic market and export markets. Its product lines were contributed to the joint venture and include hose, hose connectors, multi-layer

tubing and stainless steel braided hose. The joint venture is owned 60% by us and 40% by our Chinese partner. We will invest \$7.8 million to obtain this 60% interest, \$5.0 million of which had been paid as of December 31, 2002. Our December 31, 2002 Consolidated Balance Sheet contains a purchase price allocation of the joint venture. The allocation for goodwill was approximately \$3 million and approximately \$2 million was for other amortizable intangibles, which are classified in "Other Assets: Other" in our Consolidated Balance Sheet as of December 31, 2002.

As part of our \$18.7 million capital expenditure budget for fiscal 2002, we expected to invest approximately \$9.0 million to establish a 100% controlled bronze and brass manufacturing plant in Tianjin, China. We anticipate that the construction of the plant will be completed in early 2003. Any remaining costs are expected to be disbursed over the next two quarters of fiscal 2003. As of December 31, 2002, we have spent approximately \$7.7 million.

We are in the process of implementing a plan to consolidate several of our manufacturing plants both in North America and Europe. At the same time we are expanding our manufacturing capacity in China and other low cost areas of the world. The implementation of this manufacturing restructuring plan began during the fourth quarter of fiscal 2001. The projects for which charges were recorded in the fourth quarter of fiscal 2001 are essentially complete. During 2002, we decided to expand the scope of the manufacturing restructuring plan and transfer certain production to low cost manufacturing plants in Tunisia and Bulgaria. The expanded plan is expected to be completed by the end of fiscal 2003. We anticipate that the pre-tax cost of the manufacturing restructuring plan will be \$12.8 million. We recorded pre-tax manufacturing restructuring and other costs of \$5.8 million in the fourth quarter of fiscal 2001 and \$4.1 million for fiscal 2002. We anticipate recording additional pre-tax costs of approximately \$2.9 million in fiscal 2003 as we continue to implement the program. The manufacturing restructuring and other costs recorded in 2001 and 2002 consist primarily of severance costs, asset write-downs and accelerated depreciation. The severance costs, which have been recorded as restructuring, are for 38 employees in manufacturing and administration groups, 26 of whom have been terminated as of December 31, 2002. Asset write-downs consist primarily of write-offs of inventory related to product lines that we have discontinued as part of this restructuring plan and they have been recorded in cost of goods sold. Accelerated depreciation is based on shorter remaining estimated useful lives of certain fixed assets and has been recorded in cost of goods sold. Other costs consist primarily of removal and shipping costs associated with relocation of manufacturing equipment and has been recorded in cost of goods sold. The tax benefits of costs incurred and asset write-downs will approximate the amount of cash outlays to implement this program, which would allow us to complete the restructuring plan with a minimum consumption of cash. Following the completion of the plan, we estimate an annual pre-tax savings of approximately \$5.0 million at current production volume.

Our 2002 Annual Report to Shareholders discusses earnings as adjusted to exclude manufacturing restructuring and other costs and goodwill amortization for fiscal 2002 and 2001. Management believes this information to be an appropriate supplemental measure of the operating performance of our Company because it helps investors understand the impact of changes in accounting principles and the impact of our restructuring plan. It should not be considered an alternative to net income as an indication of our performance.

A reconciliation of adjusted earnings to earnings as reported for the twelve months ended December 31, 2002, 2001 and 2000 is provided below. Adjusted earnings exclude restructuring, impairment and related costs for the twelve months ended December 31, 2002 and 2001 and also excludes goodwill amortization, based on the adoption of FAS 142, for the twelve months ended December 31, 2001 and 2000.

	Twelve Months Ended 12/31/02	Twelve Months Ended 12/31/01	Twelve Months Ended 12/31/00
	(in thousands)		
Earnings as reported—continuing operations	\$ 32,622	\$ 26,556	\$ 31,171
Cost of restructuring	2,552	3,593	—
Goodwill amortization	—	3,220	2,668
Adjusted earnings—continuing operations	\$ 35,174	\$ 33,369	\$ 33,839

The components of restructuring and other costs are outlined below.

Restructuring	\$ 638	\$ 1,454	\$ —
Other costs	3,451	4,377	—
Total costs	4,089	5,831	—
Tax benefit	(1,537)	(2,238)	—
After tax cost	\$ 2,552	\$ 3,593	\$ —

Results of Operations

Twelve Months Ended December 31, 2002 Compared to Twelve Months Ended December 31, 2001

Net Sales. Net sales for the twelve months ended December 31, 2002 increased \$66,586,000 (12.1%) to \$615,526,000 compared to \$548,940,000 for the same period in 2001. The increase in net sales is attributable to the following:

	(in thousands)	
Internal Growth	\$ 11,773	2.1%
Acquisitions	47,080	8.6%
Foreign Exchange	7,733	1.4%
Total Change	\$ 66,586	12.1%

The increase in net sales from internal growth is primarily attributable to increased unit sales in the do-it-yourself (DIY) market in North America. The growth in net sales from acquired businesses is due to the inclusion of the net sales from Powers Process Controls of Skokie, Illinois, acquired on September 28, 2001; Premier Manufactured Systems of Phoenix, Arizona, acquired on June 13, 2001; Fimet of Milan, Italy, acquired on June 1, 2001; Cheng Guan, our joint venture, which we established on March 5, 2002; ADEV and Eminent, acquired on July 15, 2002; and F&R acquired on July 29, 2002. The increase in foreign exchange is due primarily to the euro appreciating against the U.S. dollar compared to the same period in 2001.

We monitor our net sales in three geographical segments: North America, Europe and Asia. As outlined below, North America, Europe and Asia accounted for 73.1%, 23.7% and 3.2% of net sales, respectively, in the twelve months ended December 31, 2002 compared to 75.7%, 22.1%, and 2.2%, respectively, in the twelve months ended in December 31, 2001.

Our net sales in each of these geographic segments for the twelve months ended December 31, 2002 and 2001 were as follows:

	Twelve Months Ended 12/31/02	Twelve Months Ended 12/31/01	Change
	(in thousands)		
North America	\$ 450,233	\$ 415,689	\$ 34,544
Europe	145,629	121,228	24,401

Asia	19,664	12,023	7,641
Total	\$ 615,526	\$ 548,940	\$ 66,586

The increase in net sales in North America is due to the inclusion of Powers Process Controls and Premier Manufactured Systems, as well as increased unit sales to the DIY market. The increase in net sales in Europe is due to the inclusion of Fimet, ADEV, Eminent and F&R and the appreciation of the euro against the U.S. dollar. The increase in net sales in Asia is primarily due to the inclusion of our Chen Guan joint venture.

Gross Profit. Gross profit for the twelve months ended December 31, 2002 increased \$25,188,000 (13.7%) from the comparable prior year period and increased as a percentage of net sales to 33.9% from 33.4%. We charged \$2,907,000 and \$4,253,00 of costs associated with our manufacturing restructuring plan to cost of sales in 2002 and 2001, respectively. Excluding the cost associated with the manufacturing restructuring plan in 2002 and 2001, gross profit would have increased \$23,842,000 (12.7%) and would have increased as a percentage of net sales to 34.4% from 34.2%.

Selling, General and Administrative Expenses. Selling, general and administrative expenses increased \$18,758,000 (14.2%) to \$150,553,000 from \$131,795,000 for the comparable prior year period. This increase is attributable to the inclusion of the selling, general and administrative expenses of acquired companies, an increase in the cost of product and general liability insurance and administrative start-up costs associated with our new manufacturing plant in China. We adopted Financial Accounting Standards Board Statement No. 142 "Goodwill and Other Intangibles" (FAS142) on January 1, 2002, and accordingly did not record any goodwill amortization for fiscal 2002. We recorded goodwill amortization of \$3,220,000 as part of our selling, general and administrative expenses for fiscal 2001.

Restructuring and Other Charges. Restructuring and other charges for the twelve months ended December 31, 2002 decreased \$816,000 (56.1%) to \$638,000 compared to \$1,454,000 for the same period in 2001. These costs are primarily for severance costs. The costs related to the twelve months ended December 31, 2002 were for 24 employees, 12 of which have been terminated as of December 31, 2002, compared to the costs related to December 31, 2001 which were for 14 employees, all of which have been terminated as of December 31, 2002.

Operating Income. Operating income for the twelve months ended December 31, 2002 increased \$7,246,000 (14.4%) to \$57,529,000 compared to \$50,283,000 for the same period in 2001 due to increased gross profit and the cessation of goodwill amortization, partially offset by increased other

selling, general and administrative expenses. Operating income by segment for the twelve months ended December 31, 2002 and 2001 was as follows:

	Twelve Months Ended 12/31/02	Twelve Months Ended 12/31/01	Change
		(in thousands)	
North America	\$ 57,266	\$ 47,346	\$ 9,920
Europe	13,107	11,256	1,851
Asia	(230)	1,365	(1,595)
Corporate	(12,614)	(9,684)	(2,930)
Total	\$ 57,529	\$ 50,283	\$ 7,246

The increase in North America is due to increased gross profit, primarily due to the inclusion of operating results of acquired companies partially offset by increased premiums for product and general liability insurance. The increase in Europe is due to the inclusion of the operating results of acquired companies and the euro appreciating against the U.S. dollar compared to the prior year. The decrease in China is primarily due to increased bad debt and warranty expense. Corporate expenses are primarily for compensation expense, professional fees, including legal and audit expenses and product liability and general liability insurances. The increase in corporate expenses is primarily due to increased legal and audit expenses and administrative start-up costs associated with our new manufacturing plant in China.

Interest Expense. Interest expense for the twelve months ended December 31, 2002 decreased \$730,000 (7.7%) to \$8,692,000 compared to \$9,422,000 for the same period in 2001, primarily due to lower interest rates on variable rate indebtedness and capitalized construction period interest on our startup manufacturing plant in China, partially offset by the increased levels of debt incurred to fund acquisitions. On September 1, 2001, we entered into an interest rate swap with respect to our \$75,000,000 8 ³ / 8 % notes due December 2003. The swap converted the interest from fixed to floating. On August 5, 2002, we sold the swap and received \$2,315,000 in cash. Interest expense for the twelve months ended December 31, 2002 has been reduced by \$1,711,000 from the benefit of the swap while active and by the amortization of

the adjustment to the fair value subsequent to the sale of the swap.

Income Taxes. Our effective tax rate for continuing operations for the twelve months ended December 31, 2002, increased to 35.0% from 33.9% for the comparable prior year period. The increase is primarily due to a change in our earnings mix to jurisdictions with higher tax rates. Also in 2001, the costs for the manufacturing restructuring plan were recorded in tax jurisdictions with tax rates higher than our effective rate, which caused the overall effective rate for 2001 to be lower than would normally be expected. Excluding the impact of the after-tax manufacturing costs and goodwill amortization in both 2002 and 2001, the effective tax rate would have increased to 35.2% from 32.2%.

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Net Income From Continuing Operations. Net income from continuing operations for the twelve months ended December 31, 2002 increased \$6,066,000 (22.8%) to \$32,622,000, or \$1.21 per common share compared to \$26,556,000, or \$0.99 per common share, for the twelve months ended December 31, 2001 on a diluted basis.

**Twelve Months Ended December 31, 2001 Compared to
Twelve Months Ended December 31, 2000**

Net sales. Net sales for the twelve months ended December 31, 2001 increased \$32,840,000 (6.4%) to \$548,940,000 compared to \$516,100,000 for the same period in 2000. The increase in net sales is attributable to the following:

	(in thousands)	
Internal Growth	\$ (12,764)	(2.4)%
Acquisitions	50,203	9.7%
Foreign Exchange	(4,599)	(0.9)%
Total Change	\$ 32,840	6.4%

The decrease in net sales from internal growth is attributable to decreased unit sales to North American and European plumbing and heating wholesalers resulting from the continued weakness in the North American plumbing market and the weakened European economy. These decreases were partially offset by increased unit sales in the DIY market. The growth in net sales from acquired businesses is due to the inclusion of the net sales from Powers Process Controls of Skokie, Illinois, acquired on September 28, 2001, Premier Manufactured Systems of Phoenix, Arizona, acquired on June 13, 2001, Fimet of Milan, Italy, acquired on June 1, 2001, Dumser Metallbau GmbH & Co., KG of Landau, Germany, acquired on January 5, 2001, the business acquired from Chiles Power Supply and Bask, LLC of Springfield, Missouri, now doing business as Watts Radiant, acquired on August 30, 2000, and McCraney, Inc. of Santa Ana, California, doing business as Spacemaker, acquired on May 12, 2000. The decrease in foreign exchange is due primarily to the devaluation of the euro against the U.S. dollar compared to the same period in 2000.

We monitor our net sales in three geographical segments: North America, Europe and Asia. As outlined below, North America, Europe and Asia accounted for 75.7%, 22.1% and 2.2% of net sales, respectively, in the twelve months ended December 31, 2001 compared to 77.6%, 20.0%, and 2.4%, respectively, in the twelve months ended December 31, 2000. Our net sales in each of these geographic segments for the twelve months ended December 31, 2001 and 2000 were as follows:

	Twelve Months Ended 12/31/01	Twelve Months Ended 12/31/00	Change
	(in thousands)		
North America	\$ 415,689	\$ 400,384	\$ 15,305
Europe	121,228	103,085	18,143
Asia	12,023	12,631	(608)
Total	\$ 548,940	\$ 516,100	\$ 32,840

The increase in net sales in North America is due to the inclusion of Powers Process Controls, Premier Manufactured Systems, Watts Radiant, and Spacemaker acquisitions, as well as increased unit sales to the DIY market, partially offset by decreased unit sales to plumbing and heating wholesalers. The increase in net sales in Europe is due to the inclusion of Fimet and Dumser, partially offset by decreased unit sales to European plumbing and heating wholesalers and the euro's devaluation against the U.S. dollar.

Gross Profit. Gross profit for the twelve months ended December 31, 2001 decreased \$1,772,000 (1.0%) from the comparable prior year period and decreased as a percentage of net sales to 33.4% from 35.9%. We charged \$4,253,000 of costs associated with our manufacturing restructuring plan to cost of sales. Excluding these manufacturing restructuring costs, the gross profit would have increased \$2,481,000 and declined as a percentage of sales to 34.2% from 35.9%. This decreased percentage is primarily attributable to an unfavorable sales mix caused by the decreased sales to plumbing and heating wholesalers as well as the inclusion of the gross margin of acquired companies, which operated at a lower gross margin than the remainder of our business.

Selling, General and Administrative Expense. Selling, general and administrative expenses increased \$6,478,000 (5.2%) to \$131,795,000 from \$125,317,000 for the comparable prior year period. This increase is attributable to the inclusion of the selling, general and administrative expenses of acquired companies, partially offset by the lower exchange rate of the euro relative to the U.S. dollar and reduced spending levels.

Restructuring and Other Charges. Restructuring and other charges are primarily severance and related costs in the current year for 14 employees, 13 of which were terminated as of December 31, 2001.

Operating Income. Operating income for the twelve months ended December 31, 2001 decreased \$9,704,000 (16.2%) to \$50,283,000 compared to the same period in 2000 due to reduced gross profit and manufacturing restructuring costs. Operating income by segment for the twelve months ended December 31, 2001 and 2000 was as follows:

	Twelve Months Ended 12/31/01	Twelve Months Ended 12/30/00	Change
	(in thousands)		
North America	\$ 47,346	\$ 55,661	\$ (8,315)
Europe	11,256	13,225	(1,969)
Asia	1,365	882	483
Corporate	(9,684)	(9,781)	97
Total	\$ 50,283	\$ 59,987	\$ (9,704)

The decrease in both North American and European operating income is due to decreased unit sales to plumbing and heating wholesalers and manufacturing restructuring plan costs. These decreases were partially offset by the operating earnings of acquired companies. The increase in China is primarily due to decreased bad debt expense due to the stabilization of the accounts receivable aging in the domestic Chinese market. Corporate expenses are primarily for compensation expense, professional fees, including legal and audit expenses, product liability and general liability insurances.

Interest Expense. Interest expense for the twelve months ended December 31, 2001 decreased \$475,000 (4.8%) to \$9,422,000 compared to \$9,897,000 for the same period in 2000, primarily due to lower interest rates on variable rate indebtedness, partially offset by the increased levels of debt incurred for acquisitions. On September 1, 2001, we entered into an interest rate swap with respect to our \$75,000,000 8³/8% notes due December 2003. The swap converted the interest from fixed to floating and reduced our interest expense by \$641,000 during 2001.

Income Taxes. Our effective tax rate for continuing operations decreased to 33.9% from 36.7% for the comparable prior year period. The decrease is primarily due to statutory rate reductions affecting income tax in Canada and other tax planning opportunities. The costs for the manufacturing restructuring plan were recorded in tax jurisdictions with tax rates higher than the our effective rate, which lowered the overall effective rate for fiscal 2001.

Net Income from Continuing Operations. Net income from continuing operations for the twelve months ended December 31, 2001 decreased \$4,615,000 (14.8%) to \$26,556,000, or \$0.99 per common share, compared to \$31,171,000, or \$1.17 per common share for the twelve months ended December 31, 2000 on a diluted basis. On a net of tax basis, the manufacturing restructuring plan costs accounted for \$0.13 per share of this reduction.

Discontinued Operations. For the twelve months ended December 31, 2000, discontinued operations reported a net loss of \$7,170,000, or \$0.27 per share, on a diluted basis. We did not record any costs associated with discontinued operations for the twelve months ended December 31, 2001 or 2002. See Note 3 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

During the twelve month period ended December 31, 2002, we generated \$51,425,000 of cash from continuing operations. We spent \$16,399,000 on capital equipment for the twelve months ended December 31, 2002, net of proceeds of \$3,194,000, primarily from the sale of two facilities that were closed as part of our manufacturing restructuring plan. The largest component of our capital expenditures was the establishment of a 100% controlled bronze and brass manufacturing plant in Tianjin, China, with an estimated total cost of \$9,000,000, of which approximately \$7,700,000 was invested in the twelve months ended December 31, 2002. The remaining capital expenditures were primarily for manufacturing machinery and equipment as part of our commitment to continuously improve our manufacturing capabilities.

In addition, during the twelve months ended December 31, 2002, we invested approximately \$5,000,000 to establish our joint venture in China, \$10,000,000 to acquire Hunter Innovations, and approximately \$10,900,000 for our three acquisitions in Europe, ADEV, Eminent and F&R.

We had positive free cash flow of \$28,536,000 (defined as net cash provided by continuing operations minus capital expenditures and dividends plus proceeds from sale of assets) during the twelve months ended December 31, 2002 versus positive free cash flow of \$29,035,000 in the comparable prior year period. We experienced an increase in accounts receivable due to increased sales volume, a change in industry-wide payment terms from The Home Depot, Inc., our largest customer, while remaining within normal industry standards, and the addition of accounts receivable from our Cheng Guan joint venture established in March 2002. This is offset by increased income from continuing operations and increased depreciation expense compared to the comparable period.

We believe free cash flow to be an appropriate supplemental measure of the operating performance of our Company because it provides investors with a measure of our ability to repay debt and to fund acquisitions. Our computation may not be comparable to other companies that may define free cash flow differently. Free cash flow does not represent cash generated from operating activities in accordance with Generally Accepted Accounting Principles (GAAP). Therefore it should not be considered an alternative to net cash flows from operating activities as an indication of our performance. Free cash flow should also not be considered an alternative to net cash flows from operating activities as defined by GAAP.

A reconciliation of free cash flow to net cash provided by continuing operations is provided below:

	Twelve Months Ended 12/31/02	Twelve Months Ended 12/31/01
	(in thousands)	
Net cash provided by continuing operations	\$ 51,425	\$ 51,237
Less: additions to property, plant, and equipment	(19,593)	(16,047)
Plus: proceeds from the sale of property, plant, and equipment	3,194	267
Less: dividends	(6,490)	(6,422)
Free cash flow	\$ 28,536	\$ 29,035

On September 6, 2002, we received \$9,524,000 of cash from Zurich American Insurance Company for reimbursement of defense costs incurred by us in the James Jones case since April 23, 1998. This cash, net of tax, is classified as discontinued operations in our Consolidated Statements of Cash Flows. In addition on January 16, 2003, we received \$2,726,000 of cash from Zurich American Insurance Company for indemnification costs incurred in the James Jones case. See Part I, Item 1, "Product Liability Environmental and Other Litigation Matters—James Jones Case."

On February 28, 2002, we entered into a revolving credit facility with a syndicate of banks (the Revolving Credit Facility), which replaced our \$100.0 million (U.S.) facility and our 39.4 million euro facility. The Revolving Credit Facility provides for borrowings of up to \$150.0 million (U.S.), which includes a \$100.0 million tranche for U.S. dollar borrowings and a \$50.0 million tranche for euro-based borrowings and matures in February 2005. Approximately \$46.0 million of borrowings under the Revolving Credit Facility were used to repay amounts outstanding under the prior facilities. The Revolving Credit Facility is being used to support our acquisition program, working capital requirements and for general corporate purposes. As of December 31, 2002, long-term debt included \$41.6 million outstanding on the Revolving Credit Facility for both U.S. dollar and euro-based borrowings.

Outstanding indebtedness under the Revolving Credit Facility bears interest at one of three customary rates plus a margin of 100 basis points, depending on the applicable base rate and our bond rating. The average interest rate for borrowings under the Revolving Credit Facility was approximately 3.9% at December 31, 2002. The Revolving Credit Facility includes operational and financial covenants customary for facilities of this type, including, among others, restrictions on additional indebtedness, liens and investments and maintenance of certain leverage ratios. As of December 31, 2002, we were in compliance with all covenants related to the Revolving Credit Facility.

Working capital (defined as current assets less current liabilities) as of December 31, 2002 was \$77.2 million compared to \$142.6 million as

of December 31, 2001. This decrease is primarily due to the classification of our \$75.0 million 8³/₈ % notes due December 2003 as current portion of long-term debt partially offset by an increase in accounts receivable. Excluding the \$75.0 million 8³/₈ % notes, the working capital would have been \$152.2 million. The ratio of current assets to current liabilities was 1.3 to 1 as of December 31, 2002 compared to 2.3 to 1 as of December 31, 2001. Cash and cash equivalents were \$11.0 million as of December 31, 2002 compared to \$12.0 million as of December 31, 2001. Proceeds from the exercise of stock options were \$8.0 million for December 31, 2002, primarily due to the exercising of expiring options. The increase in total debt to \$138.5 million as of December 31, 2002 from \$126.9 million as of December 31, 2001 was due to the funding of acquisitions, the increase in working capital (exclusive of the current portion of long-term debt impact) and debt incurred to fund capital expenditures. Net debt to capitalization (defined as short and long term interest-bearing liabilities less cash and cash equivalents as a percentage of the sum of short and long term interest-bearing liabilities less cash and cash equivalents plus total stockholders equity, including minority interest) was 29.4% as of December 31, 2002 compared to 30.9% as of December 31, 2001.

Our net debt to capitalization is not computed in accordance with GAAP. Management believes it to be an appropriate supplemental measure because it helps investors understand our ability to meet our financing needs. Our computation may not be comparable to other companies that may define debt to capitalization differently.

A reconciliation of net debt is provided below:

	Twelve Months Ended 12/31/02	Twelve Months Ended 12/31/01
	(in thousands)	
Current portion of long-term debt	\$ 82,211	\$ 3,693
Plus: Long-term debt, net of current portion	56,276	123,212
Less: Cash and cash equivalents	(10,973)	(11,997)
Net Debt	\$ 127,514	\$ 114,908

A reconciliation of capitalization is provided below:

	Twelve Months Ended 12/31/02	Twelve Months Ended 12/31/01
	(in thousands)	
Total stockholders' equity	\$ 295,936	\$ 249,314
Plus: Minority interest	10,134	7,309
Capitalization	\$ 306,070	\$ 256,623

Our net capital expenditure budget for fiscal 2003 is \$15,536,000, which includes expected proceeds from the sale of a facility that was closed as part of our manufacturing restructuring plan. In January 2003, we contributed \$3,000,000 to our pension plan and expect to contribute approximately \$800,000 within the first six months of fiscal 2003 to fund the minimum contribution required. We also intend to refinance our \$75.0 million 8³/₈ % notes prior to the stated maturity of December 1, 2003.

We anticipate that available funds from current operations and other sources of liquidity will be sufficient to meet current operating requirements and anticipated capital expenditures for at least the next 24 months. However, we may have to consider external sources of financing for any large future acquisitions.

Our long-term financial obligations are presented in the following table:

	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	(in thousands)				
Long-term debt, including current maturities(a)	\$ 138,487	\$ 82,211	\$ 50,694	\$ 4,670	\$ 912
Operating leases	7,497	1,669	2,134	1,369	2,325

Capital leases	1,677	730	693	254	—
Total	\$ 147,661	\$ 84,610	\$ 53,521	\$ 6,293	\$ 3,237

(a) as recognized in the consolidated balance sheet

Letters of credit are purchased guarantees that ensure our performance or payment to third parties in accordance with specified terms and conditions. Amounts outstanding were approximately \$19,522,000 as of December 31, 2002 and \$14,997,000 as of December 31, 2001. These instruments may exist or expire without being drawn down. Therefore, they do not necessarily represent future cash flow obligations.

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Certain of our loan agreements contain covenants that require, among other items, the maintenance of certain financial ratios and limit our ability to enter into secured borrowing arrangements.

We from time to time are involved with environmental proceedings and other legal proceedings and incur costs on an ongoing basis related to these matters. We have not incurred material costs in fiscal 2002 in connection with any of these matters. During the twelve months ended December 31, 2002, we disbursed approximately \$3.5 million after-tax of defense and settlement costs related to the James Jones case. In September 2002, we received \$5.7 million after tax for reimbursement of defense costs related to the James Jones case. These amounts are recorded as discontinued operations in our consolidated statement of cash flows. In addition, on January 16, 2003, we received \$1.7 million after tax for indemnification incurred in the James Jones Case. See Part I, Item 1, "Business—Product Liability, Environmental and Other Litigation Matters—James Jones Litigation."

Critical Accounting Policies and Key Estimates

The preparation of our financial statements in accordance with generally accepted accounting principles (GAAP) requires us to make judgments, assumptions and estimates that affect the amounts reported. A critical accounting estimate is an assumption about highly uncertain matters and could have a material effect on the financial statements if another, also reasonable, amount were used, or, a change in the estimate is reasonably likely from period to period. We base our assumption on historical experience and on other estimates that we believe are reasonable under the circumstances. Actual results could differ significantly from these estimates. Note 2 of Notes to Consolidated Financial Statements describes the significant accounting policies utilized in the preparation of the consolidated financial statements.

We have discussed the development, selection and disclosure of the estimates with our Audit Committee. Management believes the following critical accounting policies reflect our most significant estimates and assumptions:

Allowance for doubtful accounts

We encounter risks associated with the collectibility of customer accounts. Management specifically analyzes individual accounts receivable, historical bad debts and allowances, concentration of receivables by customer, customer credit worthiness, current economic trends and changes in customer payment terms when evaluating the allowance for doubtful accounts. These factors along with the aging of the accounts receivable are used in determining the adequacy of the allowance. If circumstances relating to specific customers change, our estimates of the recoverability of receivables could be further adjusted.

Inventory valuation

Inventories are generally stated at the lower of cost or market with costs determined on a first-in, first-out basis. We utilize our historical experience as the basis for determining the value of our excess or obsolete inventories. Changes in market conditions, lower than expected customer demand or changes in technology or features could result in additional obsolete inventory that is not saleable and could require additional inventory reserve provisions.

Legal contingencies

We are a defendant in numerous legal matters including those involving environmental law and product liability as discussed further in Note 15 of Notes to Consolidated Financial Statements. As required by Financial Accounting Standards Board Statement No. 5 "Accounting for Contingencies" we determine whether an estimated loss from a loss contingency should be accrued by assessing whether a loss is deemed probable and the loss amount can be reasonably estimated, net of any applicable

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insurance proceeds. We develop our estimates in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results. Final settlement of these matters could result in significant effects on the results of operations, cash flows and financial position.

Goodwill and other intangibles

We adopted Financial Accounting Standards Board Statement No. 142 "Goodwill and Other Intangible Assets" (FAS 142) on January 1, 2002, and as a result we no longer amortize goodwill. The valuation of goodwill and intangible assets is reviewed for impairment annually in accordance with FAS 142. Intangible assets such as purchased technology are generally recorded in connection with a business acquisition. In our larger, more complex acquisitions, the value assigned to intangible assets is determined by an independent valuation firm based on estimates and judgments regarding expectations of the success and life cycle of products and technology acquired. If actual product acceptance differs significantly from the estimates, we may be required to record an impairment charge to write down the assets to their realizable value. The annual goodwill impairment test involves the use of estimates related to the fair market value of the business unit with which the goodwill is associated. The value is estimated using the future cash flow valuation methodology. A severe decline in market value could result in an unexpected impairment charge to goodwill which could have a material impact on the results of operations, cash flows and financial position.

Business combinations

In addition to the requirements set forth in FAS 141 regarding intangible assets, it is necessary to make other estimates relating to the assets acquired, liabilities assumed, and assumptions of future growth of the acquired companies. There are no assurances that such estimates or assumptions will be accurate.

Pension benefits

The calculation of employee pension benefit costs and obligations by actuaries are dependent on our assumptions. These assumptions include salary growth, long-term return on plan assets, discount rates and other factors. The key factors utilized by the actuaries are discussed in further detail in Note 14 of Notes to Consolidated Financial Statements.

Income taxes

We recognize deferred tax liabilities and assets for the expected future consequences of events that have been reflected in our consolidated financial statements. We present our financials in accordance with the rules of Financial Accounting Standards Board Statement No. 109 "Accounting for Income Taxes" (FAS 109). Deferred tax liabilities and assets are determined based on differences between the book values and tax bases of particular assets and liabilities, using tax rates in effect for the years in which the differences are expected to reverse. A valuation allowance is provided to offset any net deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Certain Factors Affecting Future Results

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, our financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. You should not rely on forward-looking statements, because 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 as follows:

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, customers for our products 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 continuously 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.

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

Our growth through the last two years has been largely driven by acquisitions. 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. 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 expect to face competition for acquisition candidates which may limit the number of acquisition opportunities available to us and may result in higher acquisition prices, possibly leading to a decrease in our revenues and profitability. In addition, acquisitions may involve a number of special risks, including, but not limited to:

- adverse short-term effects on our reported operating results;
- diversion of management's attention;
- loss of key personnel at acquired companies; and
- unanticipated management or operational problems or legal liabilities.

Down economic cycles, particularly reduced levels of housing starts and remodeling, 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. We also believe our level of business activity is influenced by housing starts and renovation and remodeling, which are, in turn, heavily influenced by mortgage interest rates, consumer debt levels, changes in disposable income, employment growth and consumer confidence. If these and other factors cause a material reduction in housing and remodeling starts, our revenues and profits would decrease and result in a material adverse effect on our financial condition and results of operations.

Economic, political 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;
- hiring and retaining senior management in overseas operations;
- 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;
- laws of some foreign countries, which may not protect our intellectual property rights to the same extent as the laws of United States;
- unexpected changes in regulatory requirements, which may be costly and require significant time to implement; and
- political risks specific to foreign jurisdictions.

Fluctuations in foreign exchange rates could materially affect our reported results

We are exposed to fluctuations in foreign currencies, as a significant portion of our sales and certain portions of our costs, assets and

liabilities are denominated in currencies other than U.S. dollars. Approximately 31.4% of our sales during 2002 were from sales outside of the U.S. For the twelve months ended December 31, 2002, the appreciation of the euro against the U.S. dollar had a positive impact on sales of \$7,949,000. For the twelve months ended December 31, 2001, the depreciation of the euro against the U.S. dollar had an adverse impact on sales of \$3,385,000. If our share of revenue 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.

There are significant risks in expanding our manufacturing operations in China

As part of our strategy, we are shifting a significant portion of our manufacturing operations to China to reduce our production costs. This will subject a greater portion of our operations to the risks of doing business in China. The Chinese legal system is relatively new and lacks transparency, which gives the Chinese central and local government authorities a higher degree of control over our business in China than is customary in developed economies and makes the process of obtaining necessary regulatory approval in China inherently unpredictable. In addition, the protection accorded our proprietary technology and know-how under the Chinese legal system is not as strong as in the United States and, as a result, we may lose valuable trade secrets and competitive advantage.

Although the Chinese government has been pursuing economic reform and a policy of welcoming foreign investments for the past two decades, there can be no assurance that the Chinese government will not change its current policies in the future, making continued business operations in China difficult or unprofitable.

Reductions or interruptions in the supply of raw materials and increases in the prices of raw materials could reduce our profit margins and adversely impact our ability to meet our customer delivery commitments

We require substantial amounts of raw materials, including bronze, brass and cast iron and substantially all raw materials we require are purchased from outside sources. The availability and prices 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, changes in exchange rates and worldwide price levels. We are not currently party to any long-term supply agreements. Our inability to obtain adequate supplies of raw materials for our products at favorable prices, 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. For example, in November 1994 one of a limited number of brass rod suppliers went on strike and simultaneously copper-based metals prices increased dramatically. The combination of these events caused an increase in our operating costs and adversely affected our financial results.

To the extent we are not successful in implementing our manufacturing restructuring plan, our results of operations and financial condition could be adversely affected

Our manufacturing restructuring plan, which we began in 2001 and we expanded in 2002, was implemented to reduce our manufacturing cost. If our planned manufacturing plant consolidations in the United States and Europe and our production capability expansion in China are not successful, our results of operations and financial condition could be materially adversely 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. For example, in 2001 one of our manufacturing facilities was shut down for a period of time as a result of a fire and we were required to source products from external vendors at substantially higher costs. 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 impact our business, financial condition and results of operations.

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

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 and/or plumbing codes;

- 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. 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 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.

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 also 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. Therefore, our ownership and operation of real property and our disposal of waste could lead to liabilities under these laws.

We have incurred, and expect to continue to incur, costs relating to these 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.

Third parties may infringe our intellectual property and we may expend significant 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 significant 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 time-to-time from selling products because of existing patents.

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

We may be subjected 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. In particular, if we settle or conclude litigation in a quarterly or annual reporting period, there could be a material impact on our operating results for that quarter or year. We, like other manufacturers and distributors of products designed to control and regulate fluids, 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. See Part I, Item 1, "Product Liability, Environmental and Other Litigation Matters"

The requirements of FAS 142 may result in a write-off of all or a portion of our goodwill, which would negatively impact our operating results

If we are required to take an impairment charge to our goodwill in connection with the requirements of FAS 142 our operating results may decrease and our financial condition may be harmed. As of December 31, 2002, we had goodwill, net of accumulated amortization, of \$163.2 million, or 25.7% of our total assets and 55.2% of our total stockholders' equity. Under FAS 142, goodwill and identifiable intangible assets that have indefinite useful lives are no longer amortized. In lieu of amortization, we were required to perform an initial impairment review of goodwill and are required to perform annual impairment reviews thereafter. We have concluded that no impairment existed at January 1, 2002, the time of adoption of FAS 142 and at October 27, 2002, the time of our annual review. As required by FAS 142, we will perform annual tests in October of each year for indications of goodwill impairment.

The loss of a major customer could have an adverse effect on our results of operations

For the twelve months ended December 31, 2002, our largest customer, The Home Depot, Inc., accounted for approximately \$63.0 million, or 10.2%, of our total net sales. Our second largest customer represented approximately 3.5% of our total net sales in 2002. Our top ten customers accounted for approximately 25.4% of our total net sales in 2002. 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. A significant reduction in orders or change in terms from The Home Depot, Inc. could have a material adverse effect on our future results of operations.

One of our stockholders can exercise substantial influence over our company

As of March 18, 2003, Timothy P. Horne, a member of our Board of Directors, beneficially owned 30.6% of our outstanding shares of Class A Common Stock and 94.4% of our outstanding shares of Class B Common Stock, which represents 77.2% 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 all stockholder votes and other stockholders will not be able to affect the outcome of any stockholder vote.

On August 15, 2002, the Securities Exchange Commission commenced a civil action against Mr. Timothy P. Horne alleging violations of the Securities Exchange Act of 1934. The SEC alleges that Mr. Horne, a member of our Board of Directors, our controlling stockholder, and former Chief Executive Officer and Chairman, received confidential information as an officer of Watts Industries, Inc. (the "Company") and used it to profit from trading he did in shares of Central Sprinkler Corp. in May 1999. The complaint alleged violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder based on insider trading.

Mr. Horne has entered into an agreement with the SEC to settle the civil action. Pursuant to the agreement, Mr. Horne, without admitting or denying the allegations of the complaint filed by the SEC, has consented to the entry of a final judgment against him which requires him to disgorge profits gained as a result of the conduct alleged in the complaint, pay prejudgment interest, plus a civil money penalty, and which permanently restrains and enjoins him from violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

Shares of our Class A Common Stock eligible for public sale could adversely affect the market price of our Class A Common Stock

As of March 18, 2003 there were 18,873,740 shares of our Class A Common Stock and 8,185,224 shares of our Class B Common Stock outstanding. All of the shares of Class A Common Stock are freely transferable without restriction or further registration under the federal securities laws, except for any shares held by our affiliates, sales of which will be limited by Rule 144 under the Securities Act of 1933. In addition, under the terms of a registration rights agreement with respect to outstanding shares of our Class B Common Stock (8,185,224 shares), the holders of our Class B Common Stock have rights with respect to the registration of the underlying class A common shares under the Securities Act of 1933. Under these registration rights, these Class B Common Stockholders may require on two occasions that we register their shares for public resale. If we are eligible to use Form S-3 or similar short-form registration statement, these Class B Common Stockholders may require that we register their shares for public resale up to two times per year. If we elect to register any of our shares of common stock for any public offering, these Class B Common Stockholders are entitled to include shares of common stock in the 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.

Pursuant to the exercise of these registration rights, we have registered the resale of 1,200,000 shares of our Class A Common Stock (underlying Class B Common Stock) on a Form S-3 shelf registration statement. If Mr. Horne were to sell all of the registered shares into the public market, or sell other shares owned by him, 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. Class B Common Stock constitutes 30.3% of our total outstanding common stock and 81.3% of the total outstanding voting power and thus is able to exercise a controlling influence over our business. The Class A Common Stock entitles its holders to one vote per share.

Provisions in our charter documents and Delaware law may prevent or delay an acquisition of us, which could decrease the value of our Class A Common Stock

Our certificate of incorporation and bylaws and Delaware law contain provisions that could make it harder for a third party to acquire us without the consent of our Board of Directors. These provisions include those that:

- authorize the issuance of up to 5,000,000 shares of preferred stock in one or more series without a stockholder vote;
- limit stockholders' ability to call special meetings; and
- establish advance notice requirements for nominations for election to the Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

Delaware law also imposes restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock.

Restrictions in our revolving credit facility may limit our ability to pay dividends, incur additional debt and make acquisitions and other investments

Our revolving credit facility contains 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 and our indebtedness could be declared immediately due and payable. Our ability to comply with the provisions of our revolving credit facility may be affected by changes in economic or business conditions beyond our control.

New Accounting Standards

In August 2001, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Board Statement No. 143, "Accounting for Asset Retirement Obligations" (FAS 143) which requires companies to record the fair value of an asset retirement obligation as a liability in the period it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The company must also record a corresponding increase in the carrying value of the related long-lived asset and depreciate that cost over the remaining useful life of the asset. The liability must be increased each period for the passage of time with the offset recorded as an operating expense. The liability must also be adjusted for changes in the estimated future cash flows underlying the initial fair value measurement. Companies must also recognize a gain or loss on the settlement of the liability. The provisions of FAS 143 are effective for fiscal years beginning after June 15, 2002. At the date of the adoption of FAS 143, companies are required to recognize a liability for all existing asset retirement obligations and the associated asset retirement costs. We adopted FAS 143 and our adoption was not material in our consolidated financial statements.

Effective January 1, 2002, we also adopted Financial Accounting Standards Board Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which addresses the accounting and reporting for the impairment or disposal of long-lived assets. FAS 144 supercedes FAS 121, but retains many of the fundamental provisions of FAS 121. FAS 144 also supercedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30) for the disposal of a segment of a business. However, FAS 144 retains the requirements of APB 30 to report discontinued operations separately and extends that reporting requirement to components of an entity

that has either been disposed of or is classified as held for sale. FAS 144 excludes goodwill and other intangibles that are not amortized from its scope. Our former distribution center for the German market was closed during fiscal 2002 due to our manufacturing restructuring plan. The building is being actively marketed and we expect the building to be sold during fiscal 2003. In accordance with FAS 144 we have classified this asset as an "Asset held for sale" in the Consolidated Balance Sheet as of December 31, 2002, and are carrying the asset at the fair value less costs to sell.

In April 2002, the FASB issued Financial Accounting Standards Board Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (FAS 145). FAS 145 rescinds FAS 4 and FAS 64 related to classification of gains and losses on debt extinguishment such that most debt extinguishment gains and losses will no longer be classified as extraordinary. FAS 145 also amends FAS 13 with respect to sales-leaseback transactions. We adopted the provisions of FAS 145 effective

April 1, 2002, and the adoption was not material to our consolidated financial statements.

In July 2002, the FASB issued Financial Accounting Standards Board Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). The principal difference between this Statement and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. We are currently evaluating the effect of the adoption of FAS 146 will have on our results of operations and financial position.

In December 2002, the FASB issued Financial Accounting Standards Board Statement No. 148, "Accounting for Stock-based Compensation—Transition and Disclosure (FAS 148). This statement, which is effective for fiscal years ending after December 15, 2002, amends FAS 123 and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 regardless of the accounting method used to account for stock-based compensation. We have chosen to continue to account for stock-based compensation of employees using the fair value method prescribed in APB No. 25. However we have adopted the enhanced disclosure provisions as defined by FAS 148 that are effective for December 31, 2002.

In November 2002, the FASB issued Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a roll-forward of the entity's product warranty liabilities. We will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. We have adopted the disclosure provisions of FIN 45 effective December 31, 2002. We do offer warranties, but the returns under warranty have been immaterial. The warranty reserve is part of our reserve for sales returns and allowances, a component of our allowance for doubtful accounts. We are currently in the process of evaluating the potential impact that the adoption of FIN 45 will have on our consolidated financial position and results of operations.

In January 2003, the FASB issued Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) which requires the consolidation of variable interest entities by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For

variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003 (Q3 of fiscal 2003). We are currently evaluating the effect that the adoption of FIN 46 will have on our results of operations and financial condition.

We are currently evaluating whether we would be required to consolidate Jameco International, LLC in our fiscal 2003 financial statements. Jameco International, LLC imports and sells vitreous china, imported faucets and faucet parts and imported bathroom accessories to the North American retail market. Jameco International, LLC was formed on November 14, 1996. We have a 49% interest in Jameco International, LLC and we are not involved in the operations on a daily basis. Loan amounts totaling \$2,231,000 are included in the carrying amount upon which Jameco International, LLC accrues and pays interest to us. The agreement provides for 70% of net income up to \$500,000 to be allocated to us and the amounts thereafter to be allocated in accordance with membership interest. Its annual sales for twelve months ended December 31, 2002 were \$16,685,000. The assets of \$3,821,000 less liabilities of \$1,971,000, which excludes our loan, of Jameco International, LLC are sufficient to substantially cover the carrying amount \$2,009,000 which is classified as "Other Assets: Other" in our Consolidated Balance Sheet. The assets are comprised primarily of accounts receivable and inventory that we believe is collectable and saleable respectively within the normal course of business.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We use derivative financial instruments primarily to reduce exposure to adverse fluctuations in foreign exchange rates, interest rates and prices of certain raw materials used in the manufacturing process. We do not enter into derivative financial instruments for trading purposes. As a matter of policy, all derivative positions are used to reduce risk by hedging underlying economic exposure. The derivatives we use are instruments with liquid markets.

Our consolidated earnings, which are reported in United States dollars are subject to translation risks due to changes in foreign currency exchange rates. This risk is concentrated in the exchange rate between the U.S. dollar and the euro; the U.S. dollar and the Canadian dollar; and the U.S. dollar and the Chinese RMB.

Our foreign subsidiaries transact most business, including certain intercompany transactions, in foreign currencies. Such transactions are

principally purchases or sales of materials and are denominated in European currencies or the U.S. or Canadian dollar. We use foreign currency forward exchange contracts to manage the risk related to intercompany purchases that occur during the course of a fiscal year and certain open foreign currency denominated commitments to sell products to third parties. At December 31, 2002, we had no forward contracts to buy foreign currencies and no unrealized gains or losses. See Note 16 of the Notes to the Consolidated Financial Statements.

We have historically had a very low exposure to changes in interest rates. Interest rate swaps are used to mitigate the impact of interest rate fluctuations on certain variable rate debt instruments and reduce interest expense on certain fixed rate instruments. Information about our long-term debt including principal amounts and related interest rates appears in Note 11 of the Notes to the Consolidated Financial Statements included herein.

We purchase significant amounts of bronze ingot, brass rod and cast iron, which are utilized in manufacturing our many product lines. Our operating results can be adversely affected by changes in commodity prices if we are unable to pass on related price increases to our customers. 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 and passing increases in commodity costs to our customers, to the maximum extent possible, when they occur. Additionally, on a limited basis, we use commodity futures contracts to manage this risk, but we did not in 2002. See Note 16 of the Notes to the Consolidated Financial Statements.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The index to financial statements is included in page 40 of this Report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Directors

The information appearing under the caption "Information as to Nominees for Director" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 20, 2003 is incorporated herein by reference. With respect to Directors and Executive Officers, the information appearing under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 20, 2003 is incorporated herein by reference.

Executive Officers

Information with respect to the executive officers of the Company is set forth in Item 1 of this Report under the caption "Executive Officers and Directors."

Item 11. EXECUTIVE COMPENSATION.

The information appearing under the caption "Compensation Arrangements" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 20, 2003 is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information appearing under the caption "Principal and Management Stockholders" in the Registrant's Proxy Statement relating to the

Annual Meeting of Stockholders to be held on May 20, 2003 is incorporated herein by reference.

Equity Compensation Plan Information

The following table gives information about the shares of Class A Common Stock that may be issued upon the exercise of options under the Company's 1986 Incentive Stock Option Plan, 1989 Non-Qualified Stock Option Plan, 1996 Incentive Stock Option Plan and the Management Stock Purchase Plan, as of December 31, 2002. The table does not include any shares for which shareholder approval is being sought at the annual meeting.

Plan Category	Number of shares to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of shares remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,687,492(1)\$	13.59	2,392,418(2)
Equity compensation plans not approved by security holders	—	—	—
Total	1,687,492	\$ 13.59	2,392,418

- (1) Represents 1,454,981 outstanding options under the 1986 Incentive Stock Option Plan, 1989 Non-Qualified Stock Option Plan, 1991 Directors' Non-Qualified Stock Option Plan, 1996 Incentive Stock Option Plan and the Management Stock Purchase Plan, and 232,511 outstanding restricted stock units under the Management Stock Purchase Plan.

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- (2) Includes 1,797,810 shares available for future issuance under the 1996 Incentive Stock Option Plan, and 594,608 restricted stock units available for future issuance under the Management Stock Purchase Plan.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information appearing under the caption "Compensation Arrangements-Certain Relationships and Related Transactions" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 20, 2003 is incorporated herein by reference.

Item 14. CONTROLS AND PROCEDURES.

- (a) Evaluation of disclosure controls and procedures.

As required by new Rule 13a-15 under the Securities Exchange Act of 1934, within the 90 days prior to the date of this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. We continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business. However, our management, including our Chief Executive Officer and our Chief Financial Officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives.

- (b) Changes in internal controls.

In the course of the audit of our consolidated financial statements for the year ended December 31, 2002, we became aware of deficiencies in internal controls at Tianjin Tangu Watts Valve Company Limited, or TWT, our joint venture located in Tianjin, China. We learned that we had not been maintaining adequate controls and reporting with respect to (i) disbursements from a cash account which had been established to fund certain employee benefit programs, and (ii) cash receipts. After disclosing this deficiency to the Audit Committee of our Board of Directors, our Audit Committee retained independent auditors and attorneys to investigate and report on this matter. We then took the following

corrective actions to restore control over this account and cash receipts:

- Ceased paying for these employee benefit programs through an account maintained by our joint venture partner and now pay only properly authorized obligations directly from an account maintained by TWT;
- Implemented tighter reporting and management oversight over the account and cash collections.

We believe that we now have established reasonably effective internal controls to avoid any further impairment of the assets and liabilities of TWT.

PART IV

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

(a)(1) Financial Statements

The following financial statements are included in a separate section of this Report commencing on the page numbers specified below:

Report of Independent Auditors	47
Consolidated Statements of Operations for the twelve months ended December 31, 2002, December 31, 2001 and December 31, 2000	48
Consolidated Balance Sheets as of December 31, 2002 and 2001	49
Consolidated Statements of Stockholders' Equity for the twelve months ended December 31, 2002, 2001 and 2000	50
Consolidated Statements of Cash Flows for the twelve months ended December 31, 2002, 2001 and 2000.	51
Notes to Consolidated Financial Statements	52-78

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are included in the Notes to the Consolidated Financial Statements, or are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) Exhibits

Exhibits 10.1-10.7, 10.9, 10.17, 10.23 and 10.27 constitute all of the management contracts and compensation plans and arrangements of the Company required to be filed as exhibits to this Annual Report. Upon written request of any stockholder to the Chief Financial Officer at the Company's principal executive office, the Company will provide any of the Exhibits listed below.

Exhibit No.	Description and Location
2.1	Distribution Agreement between Watts Industries, Inc. and CIRCOR International, Inc.(20)
3.1	Restated Certificate of Incorporation, as amended.(12)
3.2	Amended and Restated By-Laws, as amended July 24, 2002.(1)
9.1	Horne Family Voting Trust Agreement-1991 dated as of October 31, 1991(2), Amendments dated November 19, 1996(18), February 24, 1997(18), June 5, 1997(18), August 26, 1997(18), and October 17, 1997(21), an extension Amendment dated October 25, 2001(27) and an extension Amendment dated September 3, 2002.*
9.2	The Amended and Restated George B. Horne Voting Trust Agreement-1997 dated as of September 14, 1999.(22)
10.1	Supplemental Compensation Agreement effective as of September 1, 1996 between the Registrant and Timothy P. Horne.(14),

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- 10.2 Deferred Compensation Agreement between the Registrant and Timothy P. Horne, as amended.(4)
 - 10.3 Indemnification Agreement between the Registrant and Timothy P. Horne dated August 7, 2002.*
 - 10.4 1996 Stock Option Plan, dated October 15, 1996(15), and First Amendment dated February 28, 2003.*
 - 10.5 1989 Nonqualified Stock Option Plan.(3)
 - 10.6 Watts Industries, Inc. Retirement Plan for Salaried Employees dated December 30, 1994, as amended and restated effective as of January 1, 1994,(12), Amendment No. 1(14), Amendment No. 2(14), Amendment No. 3(14), Amendment No. 4 dated September 4, 1996.(18), Amendment No. 5 dated January 1, 1998, Amendment No. 6 dated May 3, 1999(22), and Amendment No. 7 dated June 7, 1999.(22)
 - 10.7 Watts Industries, Inc. Pension Plan (amended and restated effective as of January 1, 1997),* and First Amendment dated October 25, 2002.*
 - 10.8 Registration Rights Agreement dated July 25, 1986.(5)
 - 10.9 Executive Incentive Bonus Plan, as amended.(12)
 - 10.10 Indenture dated as of December 1, 1991 between the Registrant and The First National Bank of Boston, as Trustee, including form of 8 ³ / 8 % Note Due 2003.(8)
 - 10.11 Amended and Restated Stock Restriction Agreement dated October 30, 1991(2), Amendment dated August 26, 1997.(18)
 - 10.12 Watts Industries, Inc. 1991 Non-Employee Directors' Nonqualified Stock Option Plan(7), Amendment No. 1.(14)
 - 10.13 Watts Industries, Inc. 2003 Non-Employee Directors' Stock Option Plan.*
 - 10.14 Letters of Credit relating to retrospective paid loss insurance programs.(10)
 - 10.15 Form of Stock Restriction Agreement for management stockholders.(5)
 - 10.16 Loan Agreement dated September 1987 with, and related Mortgage to, N.V. Sallandsche Bank.(6)
 - 10.17 Agreement of the sale of shares of Intermes, S.p.A., RIAF Holding A.G. and the participations in Multiscope Due S.R.L. dated November 6, 1992.(9)
 - 10.18 Revolving Credit Agreement dated as of February 28, 2002 among the Registrant, Watts Regulator Co., Watts Industries Europe B.V., the lenders listed therein and Fleet National Bank, as Administrative Agent.(24)
 - 10.19 Watts Industries, Inc. Management Stock Purchase Plan dated October 17, 1995(13), Amendment No. 1 dated August 5, 1997.(18), Amendment No 2, dated November 1, 1999, Amendment No. 3 dated March 1, 2001.*
 - 10.20 Stock Purchase Agreement dated as of June 19, 1996 by and among Mueller Co., Tyco Valves Limited, Watts Investment Company, Tyco International Ltd. and Watts Industries, Inc.(16)

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- 10.21 Guaranty dated as of February 28, 2002 among the Registrant Watts Investment Company, Watts Spacemaker, Inc., Watts Distribution Company, Inc., Anderson-Barrows Metals Corporation, Watts Drainage Products, Inc., Webster Valve, Inc. and Jameco Industries, Inc. in favor of Fleet National Bank and the lenders under the Revolving Credit Agreement dated February 28, 2002 Revolving Credit Agreement.(24)(25)
 - 10.22 Promissory Note dated as of May 9, 2002 issued by Watts Regulator Company and Watts Industries, Inc. as borrowers.(26)

10.23	Separation and Release Agreement by and between the Registrant and Michael O. Fifer dated December 30, 2002.*
11	Statement Regarding Computation of Earnings per Common Share.(19)
21	Subsidiaries.*
23	Consent of KPMG LLP.*
99.1	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
99.2	Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

- (1) Incorporated by reference to relevant exhibit to Registrant's Form 10-Q for quarter ended September 30, 2002.
- (2) Incorporated by reference to relevant exhibit to Registrant's Form 8-K dated November 14, 1991.
- (3) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for the year ended June 30, 1989.
- (4) Incorporated by reference to relevant exhibit to Registrant's Form S-1 (No. 33-6515) dated June 17, 1986.
- (5) Incorporated by reference to relevant exhibit to Registrant's Form S-1 (No. 33-6515) as part of the Second Amendment to such Form S-1 dated August 21, 1986.
- (6) Incorporated by reference to relevant exhibit to Registrant's Form S-1 (No. 33-27101) dated February 16, 1989.
- (7) Incorporated by reference to relevant exhibit to Registrant's Amendment No. 1 to Form 10-K for year ended June 30, 1992.
- (8) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for year ended June 30, 1992.
- (9) Incorporated by reference to relevant exhibit to Registrant's Amendment No. 2 dated February 22, 1993 to Form 8-K dated November 6, 1992.
- (10) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for year ended June 30, 1993.
- (11) Intentionally omitted.
- (12) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for year ended June 30, 1995.

- (13) Incorporated by reference to relevant exhibit to Registrant's Form S-8 (No. 33-64627) dated November 29, 1995.
- (14) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for year ended June 30, 1996.
- (15) Incorporated by reference to relevant exhibit to Registrant's Form S-8 (No. 333-32685) dated August 1, 1997.
- (16) Incorporated by reference to relevant exhibit to Registrant's Form 8-K dated September 4, 1996.
- (17) Intentionally omitted.
- (18) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for year ended June 30, 1997.
- (19) Incorporated by reference to notes to Consolidated Financial Statements, Note 2 of this Report.
- (20) Incorporated by reference to exhibit 2.1 to CIRCOR International, Inc. Amendment No. 1 to its registration statement on Form 10 filed on September 22, 1999. (File No. 000-26961).
- (21) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for year ended June 30, 1998.
- (22) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for year ended June 30, 1999.
- (23) Incorporated by reference to relevant exhibit to Registrant's Form 10-Q for quarter ended September 30, 2000.

- (24) Incorporated by reference to relevant exhibit to Registrant's Form 10Q for the quarter ended March 31, 2002.
- (25) This Guaranty is substantially similar in all material respects to the Guaranties entered into by Watts Cazzaniga S.p.A. and Watts Ocean B.V.
- (26) This Note is substantially similar in all material respects to all other Notes issued to the shareholders of Hunter Innovations, Inc.
- (27) Incorporated by reference to relevant exhibit to Registrant's Form 10-K for the year ended December 31, 2001.
- * Filed as an exhibit to this Annual Report with the Securities and Exchange Commission

(b) Reports on Form 8-K

There were no reports filed on Form 8-K for the quarter ending December 31, 2002.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WATTS INDUSTRIES, INC.

By: /s/ PATRICK S. O'KEEFE

Patrick S. O'Keefe
Chief Executive Officer
President and Director

DATED: March 26, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ PATRICK S. O'KEEFE</u> Patrick S. O'Keefe	Chief Executive Officer President and Director	March 26, 2003
<u>/s/ WILLIAM C. MCCARTNEY</u> William C. McCartney	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer), Secretary	March 26, 2003
<u>/s/ GORDON W. MORAN</u> Gordon W. Moran	Chairman of the Board	March 26, 2003
<u>/s/ TIMOTHY P. HORNE</u> Timothy P. Horne	Director	March 26, 2003
<u>/s/ KENNETH J. MCAVOY</u> Kenneth J. McAvoy	Director	March 26, 2003
<u>/s/ DANIEL J. MURPHY, III</u>	Director	March 26, 2003

**WATTS INDUSTRIES, INC.
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, Patrick S. O'Keefe, certify that:

1. I have reviewed this annual report on Form 10-K of Watts Industries, Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ **PATRICK S. O'KEEFE**

Patrick S. O'Keefe
Chief Executive Officer

**WATTS INDUSTRIES, INC.
CERTIFICATION PURSUANT TO
SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

CERTIFICATIONS

I, William C. McCartney, certify that:

1. I have reviewed this annual report on Form 10-K of Watts Industries, Inc.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 26, 2003

/s/ **WILLIAM C. MCCARTNEY**

William C. McCartney
Chief Financial Officer and Treasurer

Independent Auditors' Report

The Board of Directors and Stockholders
Watts Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Watts Industries, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watts Industries, Inc. and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets based on the adoption of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

KPMG LLP

Boston, Massachusetts
February 12, 2003,
except as to Note 19
which is as of
March 25, 2003.

Watts Industries, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in thousands, except per share information)

	For the Twelve Months Ended December 31,		
	2002	2001	2000
Net sales	\$ 615,526	\$ 548,940	\$ 516,100
Cost of goods sold	406,806	365,408	330,796
GROSS PROFIT	208,720	183,532	185,304
Selling, general and administrative expenses	150,553	131,795	125,317
Restructuring and other charges	638	1,454	—
OPERATING INCOME	57,529	50,283	59,987
Other (income) expense:			
Interest income	(992)	(685)	(827)
Interest expense	8,692	9,422	9,897
Other	(389)	1,378	1,705
	7,311	10,115	10,775
INCOME FROM CONTINUING OPERATIONS			
BEFORE INCOME TAXES	50,218	40,168	49,212
Provision for income taxes	17,596	13,612	18,041
INCOME FROM CONTINUING OPERATIONS	32,622	26,556	31,171

Loss from discontinued operations, net of taxes	—	—	(7,170)
NET INCOME	\$ 32,622	\$ 26,556	\$ 24,001
Basic EPS			
Income (loss) per share:			
Continuing operations	\$ 1.22	\$ 1.00	\$ 1.18
Discontinued operations	—	—	(0.27)
NET INCOME	\$ 1.22	\$ 1.00	\$ 0.91
Weighted average number of shares	26,718	26,497	26,409
Diluted EPS			
Income (loss) per share:			
Continuing operations	\$ 1.21	\$ 0.99	\$ 1.17
Discontinued operations	—	—	(0.27)
NET INCOME	\$ 1.21	\$ 0.99	\$ 0.90
Weighted average number of shares	27,056	26,802	26,551
Dividends per share	\$ 0.240	\$ 0.240	\$ 0.268

The accompanying notes are an integral part of these consolidated financial statements.

Watts Industries, Inc. and Subsidiaries
Consolidated Balance Sheets
(Amounts in thousands, except share information)

	December 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,973	\$ 11,997
Trade accounts receivable, less allowance for doubtful accounts of \$7,322 in 2002 and \$6,070 in 2001	123,504	95,498
Inventories, net	133,415	115,864
Prepaid expenses and other assets	10,732	7,087
Deferred income taxes	27,708	25,329
Asset held for sale	2,464	349
Total Current Assets	308,796	256,124
PROPERTY, PLANT AND EQUIPMENT, NET	134,376	128,606
OTHER ASSETS:		
Goodwill, net of accumulated amortization of \$17,885 in 2002 and 2001	163,226	124,544
Other	28,114	11,196
TOTAL ASSETS	\$ 634,512	\$ 520,470

LIABILITIES AND STOCKHOLDERS' EQUITY**CURRENT LIABILITIES:**

Accounts payable	\$ 64,704	\$ 42,873
Accrued expenses and other liabilities	69,202	55,930
Accrued compensation and benefits	15,514	11,033
Current portion of long-term debt	82,211	3,693

Total Current Liabilities	231,631	113,529
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LONG-TERM DEBT, NET OF CURRENT PORTION	56,276	123,212
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DEFERRED INCOME TAXES	20,792	15,692
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OTHER NONCURRENT LIABILITIES	19,743	11,414
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MINORITY INTEREST	10,134	7,309
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STOCKHOLDERS' EQUITY:

Preferred Stock, \$.10 par value; 5,000,000 shares authorized; no shares issued or outstanding	—	—
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Class A Common Stock, \$.10 par value; 80,000,000 shares authorized; 1 vote per share; issued and outstanding, 18,863,482 shares in 2002 and 17,776,509 shares in 2001	1,886	1,778
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Class B Common Stock, \$.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding, 8,185,224 shares in 2002 and 8,735,224 shares in 2001	819	874
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Additional paid-in capital	45,132	37,182
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Retained earnings	259,893	233,761
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Accumulated other comprehensive income	(11,794)	(24,281)
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Total Stockholders' Equity	295,936	249,314
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TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 634,512	\$ 520,470
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The accompanying notes are an integral part of these consolidated financial statements.

Watts Industries, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(Amounts in thousands, except share information)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at December 31, 1999	16,888,507	\$ 1,689	9,485,247	\$ 949	\$ 35,330	\$ 196,733	\$ (15,199)	\$ —	\$ 219,502
Comprehensive income:									
Net income						24,001			24,001
Cumulative translation adjustment							(4,529)		(4,529)
Comprehensive income									19,472
Shares of Class B Common Stock converted to Class A Common Stock	250,023	25	(250,023)	(25)					
Shares of Class A Common Stock issued upon the exercise of stock options	39,609	4			309				313
Purchase of treasury stock, 10,000 shares @ cost								(105)	(105)
Retirement of treasury stock	(10,000)	(1)			(104)			105	
Net change in restricted stock units	57,826	6			461				467
Common Stock dividends						(7,107)			(7,107)

Balance at December 31, 2000	17,225,965	\$	1,723	9,235,224	\$	924	\$	35,996	\$	213,627	\$	(19,728)	\$	—	\$	232,542		
Comprehensive income:																		
Net income											26,556						26,556	
Cumulative translation adjustment													(4,553)				(4,553)	
Comprehensive income																22,003		
Shares of Class B Common Stock converted to Class A Common Stock	500,000		50	(500,000)		(50)												
Shares of Class A Common Stock issued upon the exercise of stock options	110,510		11											1,572				1,583
Purchase of treasury stock, 110,300 shares @ cost													(1,385)				(1,385)	
Retirement of treasury stock	(110,300)		(11)											(1,374)			1,385	
Net change in restricted stock units	50,334		5											988				993
Common Stock dividends													(6,422)				(6,422)	
Balance at December 31, 2001	17,776,509	\$	1,778	8,735,224	\$	874	\$	37,182	\$	233,761	\$	(24,281)	\$	—	\$	249,314		
Comprehensive income:																		
Net income											32,622						32,622	
Cumulative translation adjustment													16,475				16,475	
Pension plan additional minimum liability, net of tax of \$2,444													(3,988)				(3,988)	
Comprehensive income																45,109		
Shares of Class B Common Stock converted to Class A Common Stock	550,000		55	(550,000)		(55)												
Shares of Class A Common Stock issued upon the exercise of stock options	501,646		50											7,152				7,202
Net change in restricted stock units	35,327		3											798				801
Common Stock dividends													(6,490)				(6,490)	
Balance at December 31, 2002	18,863,482	\$	1,886	8,185,224	\$	819	\$	45,132	\$	259,893	\$	(11,794)	\$	—	\$	295,936		

The accompanying notes are an integral part of these consolidated financial statements.

Watts Industries, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in thousands)

	For the Twelve Months Ended December 31,		
	2002	2001	2000
OPERATING ACTIVITIES			
Income from continuing operations	\$ 32,622	\$ 26,556	\$ 31,171
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:			
Depreciation	21,817	19,971	16,963
Amortization	477	3,704	3,108
Deferred income taxes (benefit)	1,884	(3,421)	1,380
Loss/(Gain) on disposal of property, plant and equipment	(134)	1,923	296

Equity in undistributed earnings/(loss) of affiliates	(101)	6	(120)
Changes in operating assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable	(13,762)	6,295	(5,544)
Inventories	(2,764)	4,213	3,648
Prepaid expenses and other assets	(3,405)	(780)	5,529
Accounts payable, accrued expenses and other liabilities	14,791	(7,230)	1,323
Net cash provided by continuing operations	51,425	51,237	57,754
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(19,593)	(16,047)	(14,238)
Proceeds from the sale of property, plant and equipment	3,194	267	587
Decrease/(Increase) in other assets	(1,189)	508	(616)
Business acquisitions, net of cash acquired	(26,233)	(42,977)	(9,982)
Net cash used in investing activities	(43,821)	(58,249)	(24,249)
FINANCING ACTIVITIES			
Proceeds from long-term borrowings	122,917	124,992	71,000
Payments of long-term debt	(137,513)	(114,033)	(92,430)
Proceeds from exercise of stock options	8,003	2,576	780
Dividends	(6,490)	(6,422)	(7,107)
Purchase and retirement of common stock	—	(1,385)	(105)
Net cash provided by/(used in) financing activities	(13,083)	5,728	(27,862)
Effect of exchange rate changes on cash and cash equivalents	2,281	(214)	(496)
Net cash provided by/(used in) discontinued operations	2,174	(1,740)	(2,928)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,024)	(3,238)	2,219
Cash and cash equivalents at beginning of year	11,997	15,235	13,016
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,973	\$ 11,997	\$ 15,235
NON CASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of businesses			
Fair value of assets acquired	\$ 66,176	\$ 64,951	\$ 10,826
Cash paid, net of cash acquired	26,233	42,977	9,982
Liabilities assumed	\$ 39,943	\$ 21,974	\$ 844

The accompanying notes are an integral part of these consolidated financial statements.

Watts Industries, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(1) Description of Business

Watts Industries, Inc. (the Company) designs, manufactures and sells an extensive line of valves and other products for the water quality, water safety, water flow control and water conservation markets located predominantly in North America, Europe, and Asia.

(2) Accounting Policies

The consolidated financial statements include the accounts of the Company and its majority and wholly owned subsidiaries. Upon consolidation, all significant intercompany accounts and transactions are eliminated.

Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less at the date of original issuance.

Allowance for Doubtful Accounts

Allowance for doubtful accounts are accounted for by analyzing the aging of accounts receivable, individual accounts receivable, historical bad debts and allowances, concentration of receivables by customer, customer credit worthiness, current economic trends and changes in customer payment terms.

Concentration of Credit

The Company sells products to a diversified customer base and, therefore, has no significant concentrations of credit risk, except that approximately 10.2% of the Company's total sales in 2002 are to The Home Depot, Inc.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market. Market value is determined by replacement cost or net realizable value. Historical experience is used as the basis for determining the value of our excess or obsolete inventories.

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. The Company adopted Financial Accounting Standards Board Statement No. 141, "Business Combinations" (FAS 141) in fiscal 2001 and Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets" (FAS 142) on January 1, 2002. FAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. FAS 141 also specifies the criteria that intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill. FAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment, at least annually. FAS 142 also requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values and reviewed for impairment in accordance with Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144).

FAS 142 requires the Company to perform an assessment of whether there is an indication that the remaining recorded goodwill is impaired as of the date of adoption. This assessment involves a two-step transitional impairment test. To accomplish this, the Company must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. To the extent that a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform the second step of the transitional impairment test. Any transitional impairment loss will be recognized as a cumulative effect of a change in accounting principle. In connection with the adoption of FAS 142, the Company has completed the first step of the transitional goodwill impairment test, which requires the Company to compare the fair value of its reporting units to the carrying value of the net assets of the respective reporting units as of January 1, 2002. Based on this analysis, the Company has concluded that no impairment existed at the time of adoption, and accordingly, the Company has not recognized any transitional impairment loss.

FAS 142 also requires goodwill to be tested annually and between annual tests if events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. The Company has elected to perform its annual tests for indications of goodwill impairment as of the end of fiscal October of each year. The Company performed its fiscal 2002 annual test as of October 27, 2002 and concluded that no impairment existed.

The effect of the adoption of the standard on prior period earnings, excluding goodwill amortization expense, net of tax, is as follows:

Twelve Months Ended December 31,		
2002	2001	2000

	(in thousands, except per share information)		
Net income, as reported	\$ 32,622	\$ 26,556	\$ 24,001
Add back: goodwill amortization, net of tax	—	3,220	2,668
Adjusted net income	\$ 32,622	\$ 29,776	\$ 26,669
Basic earnings per share:			
Net income, as reported	\$ 1.22	\$ 1.00	\$ 0.91
Goodwill amortization	—	0.12	0.10
Adjusted net income	\$ 1.22	\$ 1.12	\$ 1.01
Diluted earnings per share:			
Net income, as reported	\$ 1.21	\$ 0.99	\$ 0.90
Goodwill amortization	—	0.12	0.10
Adjusted net income	\$ 1.21	\$ 1.11	\$ 1.00

The changes in the carrying amount of goodwill for the twelve months ended December 31, 2002 are as follows:

	(in thousands)
Carrying amount as of December 31, 2001	\$ 124,544
Goodwill acquired during the year	30,662
Effect of change in rates used for translation	8,020
Carrying amount as of December 31, 2002	\$ 163,226

Amortized Intangible Assets include the following and are presented in "Other Assets: "Other", in the Consolidated Balance Sheet:

	As of December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization
	(in thousands)	
Patents	\$ 8,353	\$ (3,445)
Other	15,144	(917)
Total	\$ 23,497	\$ (4,362)

Aggregate amortization expense for amortized other intangible assets for the twelve months ended December 31, 2002 was \$477,000. Additionally, future amortization expense on other intangible assets approximates \$597,000 for fiscal 2003, \$542,000 for fiscal 2004 and \$521,000 for fiscal 2005, 2006 and 2007.

Prior to the adoption of FAS 141 and FAS 142, goodwill was amortized over 40 years using the straight-line method. Also, the Company previously assessed the recoverability of intangible assets by determining whether the intangible asset balance can be recovered through undiscounted cash flows of the acquired businesses. The amount of impairment, if any, was measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Foreign Currency Translation

The financial statements of subsidiaries located outside the United States generally are measured using the local currency as the functional currency. Balance sheet accounts, including goodwill, of foreign subsidiaries are translated into United States dollars at fiscal year end exchange rates. Income and expense items are translated at weighted average exchange rates for each period. Net translation gains or losses are included in other comprehensive income, a separate component of stockholders' equity. The Company does not provide for U.S. income taxes on foreign currency translation adjustments since it does not provide for such taxes on undistributed earnings of foreign subsidiaries. Gains and losses from foreign currency transactions of these subsidiaries are included in net earnings.

Stock Based Compensation

The Company accounts for stock based compensations in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and related interpretations. The Company records stock based compensation expense associated with its Management Stock Purchase Plan due to the discount from market price. Stock-based compensation expense is amortized to expense on a straight-line basis over the vesting period. The following table illustrates the effect on reported net income and earnings per common share if the Company had applied the fair value method to measured stock-based compensation, which is described more fully in Note 13 as required under the disclosure provisions of Financial Accounting Standards Board No. 123, "Accounting for Stock-Based Compensation" (FAS 123) as amended by Financial Accounting Standards Board No. 148 "Accounting for Stock-Based Compensation Transition and Disclosure" (FAS 148).

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
	(in thousands)		
Net income, as reported	\$ 32,622	\$ 26,556	\$ 24,001
Add: Stock-based employee compensation expense from the Management Stock Purchase Plan included in reported net income, net of tax	223	282	74
Deduct: Stock-based employee expense determined under the fair value method, net of tax:			
Restricted stock units (Management Stock Purchase Plan)	(97)	(92)	(73)
Employee stock options	(583)	(561)	(489)
Proforma net income	\$ 32,165	\$ 26,185	\$ 23,513
Earnings per share:			
Basic—as reported	\$ 1.22	\$ 1.00	\$ 0.91
Basic—proforma	1.20	0.99	0.89
Dilutive—as reported	1.21	0.99	0.90
Dilutive—proforma	\$ 1.19	\$ 0.98	\$ 0.88

Net Income Per Common Share

Basic net income per common share is calculated by dividing net income by the weighted average number of common shares outstanding. The calculation of diluted earnings per share assumes the conversion of all dilutive securities (see Note 13).

Net income and number of shares used to compute net earnings per share from continuing operations, basic and assuming full dilution, are reconciled below:

	Twelve Months Ended December 31, 2002			Twelve Months Ended December 31, 2001			Twelve Months Ended December 31, 2000		
	Income from Continuing Operations	Shares	Per Share Amount	Income from Continuing Operations	Shares	Per Share Amount	Income from Continuing Operations	Shares	Per Share Amount
(Amounts in thousands, except per share information)									
Basic EPS	\$ 32,622	26,718	\$ 1.22	\$ 26,556	26,497	\$ 1.00	\$ 31,171	26,409	\$ 1.18
Dilutive securities principally common stock options	—	338	0.01	—	305	0.01	—	142	0.01
Diluted EPS	\$ 32,622	27,056	\$ 1.21	\$ 26,556	26,802	\$ 0.99	\$ 31,171	26,551	\$ 1.17

Derivative Financial Instruments

In the normal course of business, the Company manages risks associated with commodity prices, foreign exchange rates and interest rates through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies. The Company's hedging transactions include, but are not limited to, the use of various derivative financial and commodity instruments. As a matter of policy, the Company does not use derivative instruments unless there is an underlying exposure. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the value of the underlying hedged items. The Company does not use derivative instruments for trading or speculative purposes.

Using qualifying criteria defined in Financial Accounting Standards Board Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings.

The ineffective portion of fair value changes on qualifying hedges is recognized in earnings immediately. If a fair value or cash flow hedge were to cease to qualify for hedge accounting or be terminated, it would continue to be carried on the balance sheet at fair value until settled, but hedge accounting would be discontinued prospectively. If a forecasted transaction were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive income would be recognized immediately in earnings. On occasion, the Company may enter into a derivative instrument for which hedge accounting is not required because it is entered into to offset changes in the fair value of an underlying transaction which is required to be recognized in earnings (natural hedge). These

instruments are reflected in the Consolidated Balance Sheet at fair value with changes in fair value recognized in earnings.

Certain forecasted transactions, primarily intercompany sales between the United States and Canada, and assets are exposed to foreign currency risk. The Company monitors its foreign currency exposures on an ongoing basis to maximize the overall effectiveness of its foreign currency hedge positions. During fiscal year 2002, the Company used foreign currency forward contracts as a means of hedging exposure to foreign currency risks. The Company's foreign currency forwards have been designated and qualify as cash flow hedges under the criteria of FAS 133. FAS 133 requires that changes in fair value of derivatives that qualify as cash flow hedges be recognized in other comprehensive income while the ineffective portion of the derivative's change in fair value be recognized immediately in earnings.

The Company also uses interest rate swaps as hedges for certain forecasted interest costs.

Shipping and Handling

Shipping and handling costs included in selling, general and administrative expense amounted to \$20,900,000, \$21,002,000 and \$19,492,000 for the fiscal years ended December 31, 2002, 2001 and 2000, respectively.

Revenue Recognition

The Company recognizes revenue when all of the following criteria have been met: the product has been shipped and title passes, the sales price to the customer is fixed or is determinable, and the collectability of the price is reasonably assured. Provisions for estimated returns and allowances are made at the time of sale and are presented in the "Allowance for Doubtful Accounts" in the Consolidated Balance Sheet.

Sales Incentives and Other

During 2000, the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) added to its agenda various revenue recognition issues that could impact the income statement classification of certain promotional payments. In May 2002, the EITF reached a consensus on Issue 00-14, "Accounting for Certain Sales Incentives" (EITF 00-14). EITF 00-14 addresses the recognition and income statement classification of various sales incentives. The consensus became effective in the first quarter of 2002 and was not material to the Company's consolidated financial statements.

Effective January 1, 2002, the Company adopted EITF Issue No 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products" (EITF 01-9). This did not have a material impact as the Company has historically accounted for this type of consideration as a reduction of revenue.

Advertising

The Company records advertising expense as incurred.

Basis of Presentation

Certain amounts in fiscal years 2001 and 2000 have been reclassified to permit comparison with the 2002 presentation.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

In August 2001, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Board Statement No. 143, "Accounting for Asset Retirement Obligations" (FAS 143) which requires companies to record the fair value of an asset retirement obligation as a liability in the period it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The company must also record a corresponding increase in the carrying value of the related long-lived asset and depreciate that cost over the remaining useful life of the asset. The liability must be increased each period for the passage of time with the offset recorded as an operating expense. The liability must also be adjusted for changes in the estimated future cash flows underlying the initial fair value measurement. Companies must also recognize a gain or loss on the settlement of the liability. The provisions of FAS 143 are effective for fiscal years beginning after June 15, 2002. At the date of the adoption of FAS 143, companies are required to recognize a liability for all existing asset retirement obligations and the associated asset retirement costs. The Company has adopted FAS 143 and its adoption was not material in the consolidated financial statements.

Effective January 1, 2002, the Company also adopted FAS 144 which addresses the accounting and reporting for the impairment or disposal of long-lived assets. FAS 144 supercedes FAS 121 but retains many of the fundamental provisions of FAS 121. FAS 144 also supercedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" (APB 30) for the disposal of a segment of a business. However, FAS 144 retains the requirements of APB 30 to report discontinued operations separately and extends that reporting requirement to components of an entity that has either been disposed of or is classified as held for sale. FAS 144 excludes goodwill and other intangibles that are not amortized from its scope. The Company's former distribution center for the German market was closed during fiscal 2002 due to the Company's manufacturing restructuring plan. The building is being actively marketed and the Company expects the building to be sold during fiscal 2003. In accordance with FAS 144 the Company has classified this asset as an "Asset held for sale" in the Consolidated Balance Sheet as of December 31, 2002 and is carrying the asset at the fair value less costs to sell.

In April 2002, the FASB issued Financial Accounting Standards Board Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (FAS 145). FAS 145 rescinds FAS 4 and FAS 64 related to classification of gains and losses on debt extinguishment such that most debt extinguishment gains and losses will no longer be classified as extraordinary. FAS 145 also amends FAS 13 with respect to sales-leaseback transactions. The Company adopted the provisions of FAS 145 effective April 1, 2002, and the adoption was not material to its consolidated financial statements.

In July 2002, the FASB issued Financial Accounting Standards Board Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (FAS 146). The principal difference

between this Statement and Issue 94-3 relates to its requirements for recognition of a liability for a cost associated with an exit or disposal activity. This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently evaluating the effect the adoption of FAS 146 will have on its results of operations and financial position.

In December 2002, the FASB issued Financial Accounting Standards Board Statement No. 148, "Accounting for Stock-based Compensation—Transition and Disclosure (FAS 148). This statement, which is effective for fiscal years ending after December 15, 2002, amends FAS 123 and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, FAS 148 amends the disclosure requirements of FAS 123 regardless of the accounting method used to account for stock-based compensation. The Company has chosen to continue to account for stock-based compensation of employees using the fair value method prescribed in APB No. 25. However the enhanced disclosure provisions as defined by FAS 148 are effective for December 31, 2002 and have been adopted by the Company.

In November 2002, the FASB issued Financial Accounting Standards Board Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." (FIN 45) requires that a liability be recorded in the guarantor's balance sheet upon issuance of a guarantee. In addition, FIN 45 requires disclosures about the guarantees that an entity has issued, including a roll-forward of the entity's product warranty liabilities. The Company will apply the recognition provisions of FIN 45 prospectively to guarantees issued after December 31, 2002. The Company has adopted the disclosure provisions of FIN 45 effective December 31, 2002. The Company does offer warranties, but the returns under warranty have been immaterial. The warranty reserve is part of the sales returns and allowances, a component of the Company's allowance for doubtful accounts. The Company is currently in the process of evaluating the potential impact that the adoption of FIN 45 will have on its consolidated financial position and results of operations.

In January 2003, the FASB issued Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46) which requires the consolidation of variable interest entities by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period beginning after June 15, 2003 (Q3 of fiscal 2003 for the Company). The Company is currently evaluating the effect that the adoption of FIN 46 will have on its results of operations and financial condition.

The Company is currently evaluating whether it would be required to consolidate Jameco International, LLC in its fiscal 2003 financial statements. Jameco International, LLC imports and sells vitreous china, imported faucets and faucet parts and imported bathroom accessories to the North American retail market. Jameco International, LLC was formed on November 14, 1996. The Company has a 49% interest in Jameco International, LLC and is not involved in the operations on a daily basis. Loan amounts totaling \$2,231,000 are included in the carrying amount upon which Jameco International, LLC accrues and pays interest to the Company. The agreement provides for 70% of net income up to \$500,000 to be allocated to the Company and the amounts thereafter to be allocated in accordance with membership interest. Its annual sales for twelve months ended December 31, 2002

were \$16,685,000. The assets of \$3,821,000 less liabilities of \$1,971,000, which excludes the loan from the Company, of Jameco International, LLC are sufficient to substantially cover the carrying amount \$2,009,000 which is classified as "Other Assets: Other" on its Consolidated Balance Sheet. The assets are comprised primarily of accounts receivable and inventory that the Company believes are collectable and saleable respectively within the normal course of business.

(3) Discontinued Operations

In September 1996, the Company divested its 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 fiscal 2000 relate to legal and settlement

costs associated with the James Jones litigation (see Note 15).

Condensed operating statement data of the discontinued operations is summarized below:

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
	(in thousands)		
Net sales	\$ —	\$ —	\$ —
Costs and expenses			
Municipal Water Group	—	—	11,950
Income/(loss) before income taxes	—	—	(11,950)
Provision for income taxes (benefit)	—	—	(4,780)
Loss from discontinued operations, net of taxes	\$ —	\$ —	\$ (7,170)

(4) Restructuring and Other Charges

The Company is in the process of implementing a plan to consolidate several of its manufacturing plants both in North America and Europe. At the same time it is expanding its manufacturing capacity in China and other low cost areas of the world. The implementation of this manufacturing restructuring plan began during the fourth quarter of fiscal 2001. The projects for which charges were recorded in the fourth quarter of fiscal 2001 are essentially complete. During 2002, the Company decided to expand the scope of the manufacturing restructuring plan and transfer certain production to low cost manufacturing plants in Tunisia and Bulgaria. The expanded plan is expected to be completed by the end of fiscal 2003. The Company recorded pre-tax manufacturing restructuring and other costs of \$5,831,000 in the fourth quarter of fiscal 2001 and \$4,089,000 for fiscal 2002. The manufacturing restructuring and other costs recorded in 2001 and 2002 consist primarily of severance costs, asset write-downs and accelerated depreciation. The severance costs, which have been recorded as restructuring, are for 38 employees in manufacturing and administration groups, 26 of whom have been terminated as of December 31, 2002. Asset write-downs consist primarily of write-offs of inventory related to product lines that the Company has discontinued as part of this restructuring plan and are recorded in cost of goods sold. Accelerated depreciation is based on shorter remaining estimated useful lives of certain fixed assets and has been recorded in cost of goods sold. Other costs consist primarily of removal and shipping costs associated with relocation of manufacturing equipment and has been recorded in cost of goods sold.

Details of our manufacturing restructuring and other costs through December 31, 2002 are as follows:

	Initial Provision	Utilized During 2001	Balance 2001	Additional Provisions	Utilized During 2002	Remaining Balance
	(in thousands)					
Restructuring/Other	\$ 1,454	\$ 692	\$ 762	\$ 638	\$ 981	\$ 419
Asset Write-downs	4,300	4,300	—	2,491	2,491	—
Other costs	77	77	—	960	960	—
Total	\$ 5,831	\$ 5,069	\$ 762	\$ 4,089	\$ 4,432	\$ 419

(5) Business Acquisitions

On July 29, 2002 a wholly-owned subsidiary of the Company acquired F&R Foerster and Rothmann GmbH (F&R) located in Neuenburg am Rhein, Germany, for approximately \$2.3 million in cash less assumed net debt of \$0.8 million. F&R manufactures and distributes a line of gauges predominately to the French and German OEM markets. F&R's annual revenue, prior to the acquisition, was approximately 4 million euro. The December 31, 2002 Consolidated Balance Sheet of the Company contains a purchase price allocation consistent with the guidelines in FAS 141.

On July 15, 2002, a wholly-owned subsidiary of the Company acquired ADEV Electronic SA (ADEV) located in Rosieres, France and its closely affiliated distributor, E.K. Eminent A.B. (Eminent) located in Gothenburg, Sweden for approximately \$12.9 million in cash less assumed

net debt of \$3.5 million. ADEV also has a low cost manufacturing facility located in Tunisia. ADEV manufactures and distributes electronic systems predominantly to the OEM market. Their product lines include thermostats and controls for heating, ventilation and air conditioning, control systems for hydronic and electric floor warming systems, and controls for other residential applications. Eminent distributes electronic controls, mechanical thermostats and other electric control related products throughout the European Nordic countries. The two companies' combined annual revenue preceding the acquisition was approximately 30 million euro. The December 31, 2002 Consolidated Balance Sheet of the Company contains a purchase price allocation consistent with the guidelines in FAS 141.

On May 9, 2002, a wholly-owned subsidiary of the Company acquired Hunter Innovations of Sacramento, California for \$25 million, of which approximately \$10 million was paid in cash at the closing and the balance in interest bearing notes, payable in equal installments over the next four years. Hunter Innovations was founded in 1995 and has developed a line of large backflow prevention devices that represent a significant advance in technology. The improved product features that are important to the backflow prevention markets include lighter weight, more compact design, better flow characteristics, improved serviceability and multiple end-connection and shutoff valve options. Hunter Innovations' sales during the twelve months preceding the acquisition were approximately \$1.5 million. Unlike most of our acquisitions, Hunter did not have significant historical revenues or earnings. Nonetheless, the purchase price was based on projected revenues and earnings as utilized in other acquisitions. During the quarter ending September 30, 2002, the Company obtained a third-party valuation to allocate the purchase price. Consistent with the guidelines in FAS 141, the allocation for goodwill was approximately \$16.8 million and approximately \$11.7 million was for intangibles, which are classified in "Other Assets: Other" in the Company's Consolidated Balance Sheet as of December 31, 2002. Of the \$11.7 million of acquired intangible assets, \$9.2 million was assigned to unpatented technology that is not currently subject to amortization and \$2.5 million to patents (twenty-year useful

life). The \$16.8 million of goodwill was assigned to the North American segment, none of which is deductible for tax purposes.

On March 5, 2002, the Company entered into a joint venture with the Yuhuan County Cheng Guan Metal Hose Factory (Cheng Guan) located in Taizhou, Zhejiang Province of the People's Republic of China. Cheng Guan, with annual sales prior to the transaction of approximately \$15 million, is a manufacturer of a variety of plumbing products sold both into the Chinese domestic market and export markets. Its product lines were contributed to the joint venture and include hose, hose connectors, multi-layer tubing and stainless steel braided hose. The joint venture is owned 60% by the Company and 40% by its Chinese partner. The Company will invest \$7.8 million to obtain this 60% interest, \$5.0 million, of which, had been paid as of December 31, 2002. The December 31, 2002 Consolidated Balance Sheet of the Company contains a purchase price allocation of the joint venture. The allocation for goodwill was approximately \$3 million and approximately \$2 million was for other amortizable intangibles, which are classified in "Other Assets: Other" in the Company's Consolidated Balance Sheet as of December 31, 2002.

On September 28, 2001, a wholly-owned subsidiary of the Company acquired the assets of the Powers Process Controls Division of Mark Controls Corporation, a subsidiary of Crane Co. located in Skokie, Illinois and Mississauga, Ontario, Canada for approximately \$13 million in cash. Powers designs and manufactures thermostatic mixing valves for personal safety and process control applications in commercial and institutional facilities. It also manufactures control valves and commercial plumbing brass products including shower valves and lavatory faucets.

On June 13, 2001, a wholly-owned subsidiary of the Company acquired Premier Manufactured Systems, Inc., located in Phoenix, Arizona for approximately \$5 million in cash. Premier manufactures water filtration systems for both residential and commercial applications and other filtration products including under-the-counter ultraviolet filtration as well as a variety of sediment and carbon filters.

On June 1, 2001, a wholly-owned subsidiary of the Company acquired Fimet S.r.l. (Fabbrica Italiana Manometri e Termometri) located in Milan, Italy and its wholly-owned subsidiary, MTB AD, which is located in Bulgaria for approximately \$6 million. The acquired business manufactures pressure and temperature gauges for use in the HVAC market.

On January 5, 2001, a wholly-owned subsidiary of the Company acquired Dumser Metallbau GmbH & Co. KG located in Landau, Germany for approximately \$20 million in cash. The main products of Dumser include brass, steel and stainless steel manifolds used as a prime distribution device in hydronic heating systems. Dumser's annualized sales prior to the acquisition were approximately \$24 million. Dumser has a 51% controlling share of Stern Rubinetti. Stern Rubinetti is an Italian manufacturing company producing brass components located in Brescia, Italy.

On August 30, 2000, a wholly-owned subsidiary of the Company acquired certain assets of Chiles Power Supply and Bask LLC, located in Springfield, Missouri for approximately \$3 million in cash. The acquired business, now operating under the name Watts Radiant, manufactures and distributes a complete line of hydronic and electric radiant heating and snow melting systems.

On May 12, 2000, a wholly-owned subsidiary of the Company acquired McCraney, Inc., located in Santa Ana, California for approximately \$7 million in cash. McCraney, doing business as Spacemaker, manufactures a complete line of seismic restraint straps for water heaters as well as water heater stands and enclosures.

(6) Allowance for Doubtful Trade Accounts Receivable

Activity in the allowance for doubtful trade accounts receivable, including reserves for estimated returns, is as follows:

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
	(in thousands)		
Balance at beginning of year	\$ 6,070	\$ 6,614	\$ 6,730
Additions, charged to operations	1,225	1,697	1,211
Other additions, primarily related to acquisitions	167	392	25
Deductions, losses charged to reserves	(140)	(2,633)	(1,352)
Balance at end of year	\$ 7,322	\$ 6,070	\$ 6,614

(7) Inventories

Inventories consist of the following:

	December 31, 2002	December 31, 2001
	(in thousands)	
Raw materials	\$ 40,591	\$ 34,276
Work in process	17,289	13,032
Finished goods	75,535	68,556
	\$ 133,415	\$ 115,864

(8) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31, 2002	December 31, 2001
	(in thousands)	
Land	\$ 8,980	\$ 8,890
Buildings and improvements	64,935	61,045
Machinery and equipment	166,684	142,615
Construction in progress	8,334	5,685
	248,933	218,235
Accumulated Depreciation	(114,557)	(89,629)
	\$ 134,376	\$ 128,606

(9) Income Taxes

The significant components of the Company's deferred income tax liabilities and assets are as follows:

	December 31, 2002	December 31, 2001
	(in thousands)	
Deferred income tax liabilities:		
Excess tax over book depreciation	\$ 13,806	\$ 12,945
Intangibles	4,496	—
Other	2,490	2,747
Total deferred income tax liabilities	20,792	15,692
Deferred income tax assets:		
Accrued expenses	12,189	12,185
Net operating loss carry-forward	4,664	3,298
Other	11,564	10,495
Total deferred income tax assets	28,417	25,978
Valuation allowance	(709)	(649)
Net deferred income tax	27,708	25,329
Net deferred income tax asset	\$ 6,916	\$ 9,637

The provision for income taxes from continuing operations is based on the following pre-tax income:

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
	(in thousands)		
Domestic	\$ 37,931	\$ 30,152	\$ 35,565
Foreign	12,287	10,016	13,647
	\$ 50,218	\$ 40,168	\$ 49,212

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The provision for income taxes from continuing operations consists of the following:

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
	(in thousands)		
Current tax expense			
Federal	\$ 12,408	\$ 11,411	\$ 10,294
Foreign	4,241	4,238	4,544
State	2,139	2,125	1,845
	18,788	17,774	16,683
Deferred tax expense (benefit)			
Federal	(358)	(2,096)	1,554

Foreign	(630)	(1,593)	(414)
State	(204)	(473)	218
	(1,192)	(4,162)	1,358
	\$ 17,596	\$ 13,612	\$ 18,041

Actual income taxes reported from continuing operations are different than would have been computed by applying the federal statutory tax rate to income from continuing operations before income taxes. The reasons for this difference are as follows:

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
	(in thousands)		
Computed expected federal income expense	\$ 17,576	\$ 14,059	\$ 17,224
State income taxes, net of federal tax benefit	1,257	1,074	1,341
Goodwill amortization	—	751	714
Foreign tax rate differential	(862)	(1,025)	(646)
Other, net	(375)	(1,247)	(592)
	\$ 17,596	\$ 13,612	\$ 18,041

At December 31, 2002, the Company had net operating loss carryforwards of \$12.3 million for income tax purposes. \$10.7 million of the net operating losses are foreign losses and can be carried forward indefinitely, with the remainder being U.S. losses expiring in fiscal 2022. The Company had a valuation allowance of \$0.7 million and \$0.6 million as of December 31, 2002 and 2001, respectively, against a portion of the net operating loss carryforwards. Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$78.1 million at December 31, 2002, \$55.5 million at December 31, 2001, and \$57.3 million at December 31, 2000. Those earnings are considered to be indefinitely reinvested, and, accordingly, no provision for U.S. federal and state income taxes has been recorded thereon. Upon distribution of those earnings, in the form of dividends or otherwise, the Company will be subject to withholding taxes payable to the various foreign countries. Determination of the amount of U.S. income tax liability that would be incurred is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of any U.S. income tax liability. Withholding taxes of

approximately \$3.4 million would be payable upon remittance of all previously unremitted earnings at December 31, 2002.

The Company made income tax payments of \$16.4 million for the fiscal year ended December 31, 2002, \$19.7 million for the fiscal year ended December 31, 2001 and \$18.4 million in fiscal year ended December 31, 2000.

The Company believes that more likely than not that it will be able to recover the deferred tax assets not subject to valuation allowance.

(10) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31, 2002	December 31, 2001
	(in thousands)	
Commissions and sales incentives payable	\$ 13,370	\$ 12,214
Accrued insurance	14,168	12,415
Pension Liability	5,387	4,162
Other	23,874	18,919
Income Taxes Payable	1,860	1,766
Accrued legal/settlement	10,543	6,454

(11) Financing Arrangements

Long-term debt consists of the following:

	December 31, 2002	December 31, 2001
	(in thousands)	
8 ³ / 8 % notes due December 2003	\$ 75,000	\$ 75,000
Hunter Innovations notes with principal payable in four equal annual installments, accruing interest monthly, due May 2006 (4.10625% at December 31, 2002)	15,000	—
Industrial Revenue Bond, matured in September 2002 with accrued interest at a variable rate based on weekly tax-exempt interest rates (1.90% at December 31, 2001)	—	5,000
\$150 million revolving credit facility maturing in February 2005, includes a \$100 million tranche for U.S. borrowing and a \$50 million tranche for euro based borrowing. U.S. loan interest accruing at a variable rate (4.25% at December 31, 2002) of either eurocurrency rate loans at a LIBOR rate plus the applicable margin with respect to eurocurrency rate loans in effect for that period, or the U.S. base rate, which is the higher of the "prime rate" and (0.5%) above the Federal Funds Effective Rate. European loan interest accruing at a variable rate (3.84% at December 31, 2002) of either eurocurrency rate loans at a EURIBOR rate plus the applicable margin with respect to eurocurrency rate loans in effect for that period, or the euro base rate plus the greater of 1.0% and the applicable margin with respect to euro base rate loans in effect for that period. Of the \$41,649,000, \$6,000,000 was borrowed under the U.S. tranche and \$35,649,000 was borrowed for euro based borrowings.	41,649	—
\$100 million revolving line of credit facility, accruing interest at a variable rate (3.42% and at December 31, 2001) of either eurodollar rate plus 0.185%, prime rate or a competitive money market rate specified by the Lender, and expired March 2002	—	5,000
10.4 million euro tranche at December 31, 2001, accruing interest at a variable rate of EURIBOR plus .75% (4.5% at December 31, 2001) expired February 2002.	—	9,257
29 million euro line of credit, accruing interest at a variable rate of EURIBOR plus 0.75% (4.3% at December 31, 2001) and expired March 2002	—	25,457
Other (at interest rates ranging from 4.3% to 11.28%)	6,838	7,191
	138,487	126,905
Less: current portion	82,211	3,693
	\$ 56,276	\$ 123,212

Principal payments during each of the next five fiscal years are due as follows (in thousands): 2003—\$82,211; 2004—\$4,628; 2005—\$46,066; 2006—\$4,261 and 2007—\$409. Interest paid for all periods presented in the accompanying consolidated financial statements approximates interest expense.

On February 28, 2002, the Company entered into a revolving credit facility with a syndicate of banks (the "Revolving Credit Facility"), which replaced the Company's \$100 million (U.S.) facility and its 39,350,000 euro facility. The Revolving Credit Facility provides for borrowings of up to \$150 million (U.S.), which includes a \$100 million tranche for U.S. dollar borrowings and a \$50 million tranche for euro based borrowings and matures in February 2005. Approximately \$46 million of borrowings under the Revolving Credit Facility were used to repay amounts outstanding under the prior facilities. The Revolving Credit Facility is being used to support the Company's acquisition program, working capital requirements and for general corporate purposes.

Letters of credit are purchased guarantees that ensure the Company's performance or payment to third parties in accordance with specified terms and conditions. Amounts outstanding were approximately \$19,522,000 as of December 31, 2002 and \$14,997,000 as of December 31, 2001. These instruments may exist or expire without being drawn down. Therefore, they do not necessarily represent future cash flow obligations.

Certain of the Company's loan agreements contain covenants that require, among other items, the maintenance of certain financial ratios and limit the Company's ability to enter into secured borrowing arrangements.

(12) Common Stock

Since fiscal 1997, the Company's Board of Directors has authorized the repurchase of 4,380,200 shares of the Company's common stock in the open market and through private purchases. Since the inception of this repurchase program, 3,716,000 shares of the Company's common stock have been repurchased and retired.

The Class A Common Stock and Class B Common Stock have equal dividend and liquidation rights. Each share of the Company's Class A Common Stock is entitled to one vote on all matters submitted to stockholders and each share of Class B Common Stock is entitled to ten votes on all such matters. Shares of Class B Common Stock are convertible into shares of Class A Common Stock, on a one-to-one basis, at the option of the holder. As of December 31, 2002, the Company has reserved a total of 4,079,910 of Class A Common Stock for issuance under its stock-based compensation plans and 8,185,224 shares for conversion of Class B Stock to Class A Common Stock.

(13) Stock-Based Compensation

The Company has several stock option plans under which key employees and outside directors have been granted incentive (ISOs) and nonqualified (NSOs) options to purchase the Company's Class A common stock. Generally, options become exercisable over a five year period at the rate of 20% per year and expire ten years after the date of grant. ISOs and NSOs granted under the plans have exercise prices of not less than 100% and 50% of the fair market value of the common stock on the date of grant, respectively. At December 31, 2002, 2,392,418 shares of Class A common stock were authorized for future grants of options under the Company's stock option plans.

The following is a summary of stock option activity and related information:

	Twelve Months Ended December 31, 2002		Twelve Months Ended December 31, 2001		Twelve Months Ended December 31, 2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	(Options in thousands)					
Outstanding at beginning of year	1,757	\$ 13.31	1,714	\$ 13.03	1,960	\$ 13.25
Granted	273	15.50	230	15.19	208	11.68
Cancelled	(73)	11.75	(76)	13.89	(415)	13.79
Exercised	(502)	11.88	(111)	12.54	(39)	8.55
Outstanding at end of year	1,455	\$ 14.29	1,757	\$ 13.31	1,714	\$ 13.03

Exercisable at end of year	858	\$	14.11	1,171	\$	13.20	1,103	\$	13.31
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The following table summarizes information about options outstanding at December 31, 2002:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
(Options in thousands)					
\$ 9.20 - \$10.59	99	6.0	\$ 10.58	99	\$ 10.58
\$10.72 - \$14.05	396	8.1	12.06	217	12.09
\$14.29 - \$16.40	960	5.9	15.59	542	15.56
	1,455	6.6	\$ 14.29	858	\$ 14.11

The Company has a Management Stock Purchase Plan that allows for the granting of Restricted Stock Units (RSUs) to key employees to purchase up to 1,000,000 shares of Class A common stock at 67% of the fair market value on the date of grant. RSUs vest annually over a three year period from the date of grant. The difference between the RSU price and fair market value at the date of award is amortized to compensation expense ratably over the vesting period. At December 31, 2002, 232,511 RSUs were outstanding. Dividends declared for RSUs that remain unpaid at December 31, 2002 total \$56,260.

The Company has elected to follow APB No. 25 and related interpretations in accounting for its stock-based compensation. In addition the Company provides proforma disclosure of stock-based compensation, as measured under the fair value requirements of FAS 123. These proforma disclosures, which are calculated for awards granted after June 30, 1995, are provided in Footnote 2 as required under FAS 148. The weighted average grant date fair value of options granted are \$4.43, \$6.74 and \$4.67 for the years ending December 31, 2002, 2001 and 2000, respectively. Also, the weighted average grant date fair value of RSUs related to Management Stock Purchase Plan are \$2.40, \$4.16 and \$3.67 for the years ending December 31, 2002, 2001 and 2000, respectively. The fair value of the Company's

stock-based awards to employees and the Management Stock Purchase Plan (used in reconciliation of Footnote 2) was estimated using a Black-Scholes option pricing model and the following assumptions:

	Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
Expected life (years)	5.0	5.0	5.0
Expected stock price volatility	33.2%	52.4%	48.2%
Expected dividend yield	1.6%	1.6%	2.3%
Risk-free interest rate	2.65%	4.36%	4.93%

(14) Employee Benefit Plans

The Company sponsors defined benefit pension plans covering substantially all of its domestic employees. Benefits are based primarily on years of service and employees' compensation. The funding policy of the Company for these plans is to contribute an annual amount that does not exceed the maximum amount that can be deducted for federal income tax purposes.

The components of the pension plans are as follows:

Twelve Months Ended December 31, 2002	Twelve Months Ended December 31, 2001	Twelve Months Ended December 31, 2000
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		(in thousands)	
Components of net benefit expense			
Service cost—benefits earned	\$ 1,512	\$ 1,383	\$ 1,314
Interest costs on benefits obligation	2,683	2,487	2,371
Estimated return on assets	(2,520)	(3,003)	(2,931)
	1,675	867	754
Net amortization /deferral	(50)	(282)	(271)
Total benefit expense	\$ 1,625	\$ 585	\$ 483

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The funded status of the defined benefit plan and amounts recognized in the balance sheet are as follows:

	December 31, 2002	December 31, 2001
	(in thousands)	
Change in projected benefit obligation		
Balance at beginning of period	\$ 36,038	\$ 31,803
Service cost	1,512	1,382
Interest cost	2,683	2,487
Actuarial loss	3,495	1,182
Amendments/curtailments	96	631
Benefits paid	(1,863)	(1,447)
Balance at end of period	\$ 41,961	\$ 36,038
Change in fair value of plan assets		
Balance at beginning of period	\$ 28,724	\$ 33,943
Actual loss on assets	(1,514)	(4,010)
Employer contributions	188	238
Benefits paid	(1,863)	(1,447)
Fair value of plan assets at end of period	\$ 25,535	\$ 28,724
Plan assets less than benefit obligation	\$ (16,426)	\$ (7,315)
Unrecognized transition obligation	(403)	(657)
Unrecognized prior service costs	1,567	1,677
Unrecognized net actuarial gain	10,003	2,474
Net accrued benefit costs	\$ (5,259)	\$ (3,821)
Accrued minimum pension liability adjustment	\$ (7,526)	\$ (476)
Intangible asset	\$ 1,094	\$ 476

Additionally, substantially all of the Company's domestic employees are eligible to participate in a 401(k) savings plan. Under this plan, the Company matches a specified percentage of employee contributions, subject to certain limitations.

The Company's match expense for the years ended December 31, 2002, 2001 and 2000, were \$330,000, \$324,000 and \$225,000, respectively.

The weighted average assumptions used in determining the obligations of pension benefit plans are shown below:

	December 31, 2002	December 31, 2001
Discount rate	6.75%	7.50%
Expected return on plan assets	9.00%	9.00%
Rate of compensation increase	4.00%	4.50%

The pension intangible asset was recorded in accordance with Financial Accounting Standards Board Statement No. 87, "Employers Accounting for Pensions" (FAS 87), which states that a minimum

additional liability is required if an unfunded accumulated benefit obligation exists and (a) an asset has been recognized as prepaid pension cost, (b) the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued or prepaid pension cost has been recognized. At December 31, 2002, the Company had an unfunded accrued pension cost less than the unfunded accumulated benefit obligation, accordingly a minimum additional liability was required of approximately \$7.5 million. If an additional minimum liability is recognized pursuant to FAS 87, an equal amount is recognized as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized prior service cost. At December 31, 2002, unrecognized prior service cost is \$1.1 million, accordingly, the related intangible asset is \$1.1 million. In the Company's case, the additional minimum liability exceeded the unrecognized prior service cost by almost \$6.4 million, accordingly, the additional liability in excess of unrecognized prior service cost, (which represents a net loss not yet recognized as net periodic pension cost) is reported as a separate component of other comprehensive income in stockholder's equity, net of any tax benefits that result from considering such losses as timing differences in accordance with Financial Accounting Standards Board Statement No. 109, "Accounting for Income Taxes" (FAS 109). The deferred tax component of the minimum additional liability was \$2.4 million. The underlying reason for the Company's large minimum additional liability lies in the under performing capital markets in the United States.

The Company entered into a Supplemental Compensation Agreement (the Agreement) with Timothy P. Horne on September 1, 1996. Per the Agreement, upon ceasing to be an employee of the Company, Mr. Horne must make himself available, as requested by the Board, to work a minimum of 300 but not more than 500 hours per year as a consultant in return for certain annual compensation as long he is physically able to do so. If Mr. Horne complies with the consulting provisions of the agreement above, he shall receive supplemental compensation on an annual basis of \$400,000 per year in exchange for the services performed, as long as he is physically able to do so. In the event of physical disability, subsequent to commencing consulting services for the Company, Mr. Horne will continue to receive \$400,000 annually. The payment for consulting services provided by Mr. Horne will be expensed as incurred by the Company. Mr. Horne retired effective December 31, 2002, and therefore the Supplemental Compensation period began on January 1, 2003. In accordance with Financial Accounting Standards Board Statement No. 106, "Employers Accounting for Post Retirement Benefits Other Than Pensions", the Company will accrue for the future post-retirement disability benefits over the period from January 1, 2003, to the time in which Mr. Horne becomes physically unable to perform his consulting services (the period in which the disability benefits are earned).

(15) Contingencies and Environmental Remediation

Contingencies

In April 1998, the Company became aware of a complaint that was filed under seal in the State of California alleging violations of the California False Claims Act. The complaint alleges that a former subsidiary of the Company (James Jones Company) sold products utilized in municipal water systems that failed to meet contractually specified standards and falsely certified that such standards had been met. The complaint further alleges that the municipal entities have suffered damages as a result of defective products and seeks treble damages, reimbursement of legal costs and penalties. The original complaint has been amended, and the total number of named plaintiffs is 161, 14 of which have intervened and 47 of which have been ordered excluded from the case. In June 2001, the Company and other defendants reached a proposed settlement with the Los Angeles Department of Water and Power, one of the plaintiffs in the James Jones case, which was approved by the California Superior

Court on October 31, 2001 and by the Los Angeles City Council on December 14, 2001. The other plaintiffs remain, and the Company is vigorously contesting this matter.

In this case, Nora Armenta (the Relator) sued James Jones Company, Watts Industries, Inc. (which formerly owned James Jones), Mueller Co. and Tyco International (U.S.) in the California Superior Court for Los Angeles County. 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. The Relator also seeks civil penalties of \$10,000 for each false claim and alleges that defendants are responsible for tens of thousands of false claims. The Company settled with the City of Los Angeles, by far the most significant city, for \$5.7 million plus the Relator's statutory share and attorneys' fees. Co-

defendants will contribute \$2.0 million toward this settlement. The court has required the Relator to select cities with the strongest claims to be tried first. After the Company settled with the City of Los Angeles, the Relator made an offer to settle the balance of this case for \$121.9 million, which the Company has rejected. The Company has a reserve in the amount of \$10.5 million after-tax with respect to the James Jones Litigation in its consolidated balance sheet as of December 31, 2002. The Company believes, on the basis of all available information, that this reserve is adequate to cover its probable and reasonably estimable losses resulting from the James Jones Litigation. However, litigation is inherently uncertain, and the Company believes that there exists a reasonable possibility that it may ultimately incur losses in the James Jones Litigation in excess of the amount accrued. The Company is currently unable to make an estimate of the range of any additional losses.

On February 14, 2001, the Company filed a complaint in the California Superior Court against its insurers for coverage of the claims in the Armenta case. The James Jones Company filed a similar complaint, the cases were consolidated, and on October 30, 2001 the California Superior Court made a summary adjudication ruling that Zurich American Insurance Company must pay all reasonable defense costs incurred by the Company in the Armenta case since April 23, 1998 as well as the Company's future defense costs in this case until its final resolution. On September 5, 2002, in compliance with the October 30, 2001 ruling and a subsequent California Superior Court order, Zurich paid the Company approximately \$9.5 million for defense costs with 10% interest that the Company had previously submitted to Zurich for payment. On October 24, 2002, the California Superior Court made another summary adjudication ruling that Zurich must indemnify and pay the Company for the amounts the Company must pay under its settlement agreement with the City of Los Angeles, and, on January 16, 2003, Zurich paid the Company \$2.7 million in compliance with this order. Zurich has asserted that all amounts paid are subject to reimbursement under Deductible Agreements between the Company and Zurich and as such we have not recorded income associated with these payments. Management and counsel anticipate that the Company will still be challenged but that it will ultimately prevail on this issue. Zurich has sought appellate review of the orders requiring it to pay the \$9.5 million of defense costs and to indemnify the Company for the settlement with the City of Los Angeles, and the California Court of Appeal has agreed to review the orders that require payment of defense costs. The Company is currently unable to predict the outcome of the litigation relating to the Los Angeles indemnification coverage. The Company intends to continue to contest vigorously the Armenta case and its related litigation.

Environmental Remediation

The Company has been named as a potentially responsible party with respect to a limited number of identified contaminated sites. The level of contamination varies 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. The Company's accrued

estimated environmental liabilities are 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. The Company recognizes changes in estimates as new remediation requirements are defined or as new information becomes available. The Company estimates that its accrued environmental remediation liabilities will likely be paid over the next five to ten years.

For several years, the New York Attorney General (NYAG) has threatened to bring suit against approximately 16 Potentially Responsible Parties (PRPs), including Watts (Jameco) for incurred remediation costs and for operation and maintenance costs that will be incurred in connection with the cleanup of a landfill site in Babylon, Long Island. The NYAG has identified recovery numbers between \$19 million and \$24 million, but it is too early to know what the final recovery number will be, what the final number of PRPs will be or what proportion of the final costs may be allocated to the Company.

Asbestos Litigation

As of December 31, 2002, The Company was a defendant in approximately 60 actions filed in Mississippi and New Jersey state courts and alleging injury or death as a result of exposure to asbestos. These filings typically name multiple defendants, and are filed on behalf of many plaintiffs. They do not identify any particular products of ours as a source of asbestos exposure, and there is no reason to conclude that these filings will have a material effect on the Company's 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 the Company and its subsidiaries. Based on the facts currently known to it, the Company does not believe that the ultimate outcome of these other litigation matters will have a material adverse effect on its financial condition or results of operation.

(16) Financial Instruments

Fair Value

The carrying amounts of cash and cash equivalents, trade receivables and trade payables approximate fair value because of the short

maturity of these financial instruments.

The fair value of the Company's 8³/₈ % notes, due December 2003, is based on quoted market prices. The fair value of the Company's variable rate debt approximates its carrying value. The carrying amount and the estimated fair market value of the Company's long-term debt, including the current portion, are as follows:

	December 31, 2002	December 31, 2001
	(in thousands)	
Carrying amount	\$ 138,487	\$ 126,905
Estimated fair value	\$ 142,162	\$ 131,990

Derivative Instruments

The Company uses foreign currency forward exchange contracts to reduce the impact of currency fluctuations on certain anticipated intercompany purchase transactions that are expected to occur within the fiscal year and certain other foreign currency transactions. Related gains and losses are recognized in other income/expense when the contracts expire, which is generally in the same period as the underlying foreign currency denominated transaction. These contracts do not subject the Company to significant market risk from exchange movement because they offset gains and losses on the related foreign currency denominated transactions. At December 31, 2002, 2001 and 2000, the Company had no outstanding forward contracts to buy foreign currencies.

The Company uses commodity futures contracts to fix the price on a certain portion of certain raw materials used in the manufacturing process. These contracts highly correlate to the actual purchases of the commodity and the contract values are reflected in the cost of the commodity as it is actually purchased. At June 30, 1999, the Company had outstanding contracts with a notional value of \$3.5 million and a fair value of \$0.2 million. In December 1999, these contracts were sold and the Company realized a gain of approximately \$0.5 million. This gain was deferred at December 31, 1999 and was off-set against the costs of January and February 2000 raw material purchases, hedged in the original transaction. There were no commodity contracts outstanding at December 31, 2002, 2001 and 2000.

At December 31, 2001, the Company had an outstanding interest rate swap that converted 20 million euro of the borrowings under variable rate euro Line of Credit to a fixed rate borrowings at 4.3%. This swap agreement expired in March 2002 and its value and its impact on the Company's results was not material at December 31, 2002.

In September 2001, the Company entered an interest rate swap for its \$75 million notes. The Company swapped the fixed interest rate of 8³/₈ % to floating LIBOR plus 3.74%. On August 5, 2002, the Company sold the swap and received \$2,315,000 in cash. In accordance with FAS 133 based on the Company terminating this hedge transaction, the adjustment to the fair value will be amortized, during 2003, over the term of the notes as a reduction of interest expense and has a value of \$1,420,000 at December 31, 2002.

Leases

The Company leases certain manufacturing facilities, sales offices, warehouses, and equipment. Generally the leases carry renewal provisions and require the Company to pay maintenance costs. Future minimum payments as of December 31, 2002 are as follows:

Lease Expiration	Operating Leases	Capital Leases
2003	\$ 1,669	\$ 730
2004	1,286	459
2005	848	234
2006	684	145
2007	685	109
Total	\$ 5,172	\$ 1,677

(17) Segment Information

The following table presents certain operating segment information:

	North America	Europe	Asia	Corporate	Consolidated
			(in thousands)		
Twelve Months Ended December 31, 2002					
Net sales	\$ 450,233	\$ 145,629	\$ 19,664	\$ —	\$ 615,526
Operating income	57,266	13,107	(230)	(12,614)	57,529
Identifiable assets	373,968	209,483	51,061	—	634,512
Capital expenditures	5,718	6,171	7,704	—	19,593
Depreciation and amortization	14,731	6,370	1,193	—	22,294
Twelve Months Ended December 31, 2001					
Net sales	\$ 415,689	\$ 121,228	\$ 12,023	\$ —	\$ 548,940
Operating income	47,346	11,256	1,365	(9,684)	50,283
Identifiable assets	343,187	153,007	24,276	—	520,470
Capital expenditures	10,508	3,351	2,188	—	16,047
Depreciation and amortization	16,109	6,820	746	—	23,675
Twelve Months Ended December 31, 2000					
Net sales	\$ 400,384	\$ 103,085	\$ 12,631	\$ —	\$ 516,100
Operating income	55,661	13,225	882	(9,781)	59,987
Identifiable assets	332,621	125,213	24,191	—	482,025
Capital expenditures	11,466	2,558	214	—	14,238
Depreciation and amortization	14,229	5,185	657	—	20,071

Each operating segment is individually managed and has separate financial results that are reviewed by the Company's chief operating decision-maker.

Corporate expenses are primarily for compensation expense, professional fees, including legal and audit expenses, product liability and general liability insurances.

Goodwill amounts to \$163,226,000 in which \$102,862,000 is reported in the North American segment and \$60,364,000 is reported in the European segment.

All intercompany transactions have been eliminated, and intersegment revenues are not significant.

(18) Quarterly Financial Information (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Twelve months ended December 31, 2002				
Net sales	\$ 143,320	\$ 151,505	\$ 159,811	\$ 160,890
Gross profit	49,479	52,232	53,507	53,502
Net income from continuing operations	8,056	8,633	8,773	7,160
Net income	8,056	8,633	8,773	7,160
Per common share:				
Basic				
Income from continuing operations	0.30	0.32	0.33	0.27
Net income	0.30	0.32	0.33	0.27
Diluted				
Income from continuing operations	0.30	0.32	0.32	0.26

Net income	0.30	0.32	0.32	0.26
Dividends per common share	.0600	.0600	.0600	.0600
Twelve months ended December 31, 2001				
Net sales	\$ 135,925	\$ 135,562	\$ 138,009	\$ 139,444
Gross profit	46,664	46,349	46,943	43,576
Net income from continuing operations	7,273	7,035	7,809	4,439
Net income	7,273	7,035	7,809	4,439
Per common share:				
Basic				
Income from continuing operations	0.27	0.27	0.29	0.17
Net income	0.27	0.27	0.29	0.17
Diluted				
Income from continuing operations	0.27	0.26	0.29	0.17
Net income	0.27	0.26	0.29	0.17
Dividends per common share	.0600	.0600	.0600	.0600
Twelve Months Ended December 31, 2000				
Net sales	\$ 131,651	\$ 131,184	\$ 125,656	\$ 127,609
Gross profit	47,374	47,229	45,856	44,845
Net income from continuing operations	7,940	8,027	7,670	7,534
Net income	7,940	8,027	7,670	364
Per common share:				
Basic				
Income from continuing operations	0.30	0.30	0.29	0.28
Net income	0.30	0.30	0.29	0.01
Diluted				
Income from continuing operations	0.30	0.30	0.29	0.28
Net income	0.30	0.30	0.29	0.01
Dividends per common share	.0875	.0600	.0600	.0600

(19) Subsequent Events

The Company maintains a 60% interest in a joint venture Tianjin Tanggu Watts Valve Company Limited (TWT), a Company operating in Tianjin, China. Joint ventures in Tianjin Municipality have historically been required under Tianjian Local Regulations, to establish a Chinese Employee Account (the Account). The purpose of the Account is to disburse funds to the Chinese employees of the joint venture for items such as wages and other fringe benefits pertaining to employment. The joint venture's responsibility is to fund the Account, which essentially places the funds in trust for the Chinese employees. Once the Account is funded, the joint venture records the reduction to cash and records the associated expenses in that reporting period. Therefore, the funds in the Account are not included in the balance sheet of the joint venture. For funds that were historically placed in the Account by TWT for benefit of the employees, it appears the joint venture has appropriately recorded the expenses in its results from operations. The Chinese Party representatives of the joint venture are responsible for the appropriate disbursement of these funds to the employees. As such, TWT does not have specific control of the Account.

The Account had been properly approved and funded by TWT. Subsequent to year end, certain unauthorized activities were noted pertaining to the Company's Chinese joint venture partner's handling of the Account. Certain payments, which benefited TWT, the Chinese joint venture partners and others, were improperly made from the Account. Such payments that benefited TWT were not properly reflected in its results of operations. Additionally, certain funds received in the Account, pertaining to TWT, were not appropriately reflected in the results of operations of TWT. All identified items impacting the results of operations pertaining to the Account have been recorded by TWT and are included in the accompanying financial statements. These items amounted to a charge, net of tax, of approximately \$164,000 to the Company's consolidated financial statements, based on its interest in TWT.

Under new Chinese legislation, joint ventures in Tianjin are no longer required to maintain a wage and benefit Account for the Chinese employees. Under the legislation, TWT has the ability to close the Account whereby any funds remaining in the Account in 2007 (after consideration of employee claims) would revert back to TWT and be recorded in the TWT statement of operations. Watts' management will require TWT to close the Account in accordance with the new legislation. As of year-end 2002, the Account had assets of approximately \$2.2 million. Based on the 60% ownership of Watts the potential impact to the consolidated statement of operations ranges from a pre-tax gain of approximately \$1.3 million to a pre-tax loss of \$1.2 million. The Company is not able to estimate a liability under FAS 5 based on the facts noted above.

As a result of our review of the activities noted above, it was also determined that the joint venture partners of TWT had improperly established approximately 15 subsidiary branches of TWT in China without the approval of the TWT board of directors as required by Chinese

law and by the terms of the joint venture agreement. As a result, TWT could be found to be legally responsible under Chinese law for possible claims against these branches. Watts' management is currently unaware of any existing liabilities or claims pertaining to these branches for which TWT would be responsible.

Management does not believe the contingencies relating to either the Account or the branches will result in a material impact on the Company's financial statements.

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AMENDMENT

TO THE

HORNE FAMILY VOTING TRUST AGREEMENT 1991

This Amendment to the HORNE FAMILY VOTING TRUST AGREEMENT - 1991 is made as of the 3rd day of September, 2002, by and among TIMOTHY P. HORNE, as Trustee hereunder, WATTS INDUSTRIES, INC., a Delaware Corporation, and PETER W. HORNE, Individually and as Trustee of the PETER W. HORNE TRUST - 1976.

RECITALS

1. Timothy P. Horne currently serves as the sole Trustee of the Home Family Voting Trust Agreement - 1991, hereinafter referred to as the "Voting Trust".
2. Peter W. Horne is currently the sole Beneficiary, and the Peter W. Horne Trust - 1976 the sole Depositor/Stockholder of the Voting Trust.
3. The Peter W. Horne Trust - 1976 is the registered owner of 1,085,840 Voting Trust Certificates issued by the Voting Trust, representing an equal number of shares of the Class B common stock of Watts Industries, Inc.
4. The subject Voting Trust will end on October 31, 2002 in accordance with the terms of the Trust Agreement as previously amended as of October 25, 2001.
5. In accordance with Section 13 of the subject Trust Agreement, the term of the Voting Trust may be extended for an additional term not exceeding ten years from the scheduled expiration date of the Voting Trust.
6. Peter W. Horne, individually and as the sole Trustee of the Peter W. Horne Trust - 1976, desires to extend the term of the Voting Trust for a period of one year from the Voting Trust's scheduled expiration date.
7. Timothy P. Horne as Trustee hereunder has accepted the directive to extend the term of the Voting Trust for a period of one year.
8. Watts Industries, Inc. has acknowledged the directive and the Trustee's consent and the said Corporation hereby assents to the subject extension of the term of the Voting Trust.

AMENDMENT

In accordance with the provisions of Section 13 of the Voting Trust and Section 218 of Delaware General Corporation Law, the term of the Voting Trust is hereby extended for a one year period, and the Voting Trust shall continue in accordance with the terms of the Agreement, until October 31, 2003.

In all other respects, the terms of the subject Agreement are hereby ratified and republished in their entirety as of the date first entered above.

This Agreement may be executed in any number of counterparts with same effect as if all parties had signed the same document, and all counterparts shall be construed together and shall constitute the same instrument.

/s/ Timothy P. Horne

Timothy P. Horne, Trustee
as Aforesaid

Watts Industries, Inc.

by: /s/ William C. McCartney

Title: CFO

/s/ Peter W. Horne

Peter W. Horne,
Individually

/s/ Peter W. Horne

Peter W. Horne
Trustee of the Peter W. Horne Trust - 1976

EXHIBIT 10.1

**AMENDMENT NO. 2 TO
SUPPLEMENTAL COMPENSATION AGREEMENT**

Amendment No. 2 to Supplemental Compensation Agreement ("Amendment") made as of the 23 day of OCTOBER, 2002, by and between WATTS INDUSTRIES, INC., a Delaware corporation with its principal place of business in North Andover, Massachusetts (the "Company"), and Timothy P. Horne, an individual residing in Andover, Massachusetts ("Mr. Horne"). Capitalized terms used herein and not otherwise defined will have the meanings ascribed thereto in the Original Agreement (as defined below).

WITNESSETH:

WHEREAS, the Company and Mr. Horne are parties to a Supplemental Compensation Agreement dated September 1, 1996, as amended by Amendment No. 1 dated July 25, 2000 (the "Original Agreement"); and

WHEREAS, Mr. Horne desires to resign as Chairman and Chief Executive Officer on August 7, 2002; and

WHEREAS, the Company desires Mr. Horne to remain a part-time employee of the Company until December 31, 2002 to provide transitional services to the Company; and

WHEREAS, the Company and Mr. Horne desire to amend the Original Agreement as provided in this Amendment.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Subsection (a) of Section 1 of the Original Agreement is hereby amended by adding the following sentence after the first sentence thereof:

"In addition, for each of calendar years 2003, 2004 and 2005, Mr. Horne shall receive additional Supplemental Compensation payments in the amount of \$100,000 per year and for calendar year 2006, Mr. Horne shall receive additional Supplemental Compensation payments in the amount of \$10,668."

2. Section 1 of the Original Agreement is hereby amended by adding the following subsections (e) and (f) at the end thereof:

"(e) The Company shall provide the following fringe benefits to Mr. Horne for life:

(i) Secretarial services including the maintenance of all financial matters relating to the Horne family including tax records which are maintained for Walter Flowers;

- (ii) The use of an executive office (either current or equivalent alternate);
 - (iii) Tax and financial planning as currently performed by Walter Flowers;
 - (iv) Assistance with regard to other financial matters including the maintenance of the Horne Voting Trust, maintenance of Watts share certificates, conversion of same through Equiserve when converting to Class A, etc.;
 - (v) Maintenance of an automobile (currently the 1987 Jaguar);
 - (vi) Continuation of Lanam Club membership;
 - (vii) Reimbursement of travel costs including airfare and hotel accommodations when visiting Company facilities; and
 - (viii) Retiree health insurance.
- (f) The Company will enter into an Indemnification Agreement with Mr. Horne in the form attached hereto as Exhibit A."

3. Section 2 of the Original Agreement is hereby amended and restated in its entirety to read as follows:

"2. Services of Mr. Horne. From August 7, 2002 through December 31, 2002, Mr. Horne shall remain a part-time employee of the Company and shall provide transition services to the Company. Upon Mr. Horne's retirement on December 31, 2002, Mr. Horne hereby agrees to make himself available to serve the Company and its subsidiaries so long as he is physically able to do so, upon request of the Board of Directors, as a consultant for a minimum of 300 hours per year commencing on January 1, 2003; provided, however, that in no event shall Mr. Horne be required to devote more than 500 hours per year to the performance of services hereunder; and provided further, however, that Mr. Horne's physical inability to perform services hereunder shall not affect or limit the Company's obligation under Section 1. The obligations of Mr. Horne under this Section 2 will terminate upon payment by the Company of the Lump Sum Payment."

4. Miscellaneous

- (a) Except as expressly amended by this Amendment, the Original Agreement shall remain in full force and effect in accordance with its terms.
- (b) More than one counterpart of this Amendment may be executed by the parties hereto, but all of such counterparts taken together shall be deemed to constitute one and the same Amendment.
- (c) This Amendment shall be construed in accordance with and governed by the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, this Amendment has been executed as a sealed instrument by the Company, by its duly authorized representative, and by Mr. Horne, as of the date and year first above written.

WATTS INDUSTRIES, INC.

By: */s/ Daniel J. Murphy III*

Name: *Daniel J. Murphy III*
Title: *Compensation Committee*
Chairman

/s/ Timothy P. Horne

Timothy P. Horne

EXHIBIT 10.3

INDEMNIFICATION AGREEMENT

This Agreement made and entered into as of August 7, 2002 (the "Agreement"), by and between Watts Industries, Inc., a Delaware corporation (the "Company," which term shall include, where appropriate, any Entity (as hereinafter defined) controlled directly or indirectly by the Company) and Timothy P. Horne (the "Indemnitee"):

WHEREAS, the Company's Amended and Restated Certificate of Incorporation, as amended, and Amended and Restated By-laws (the "Certificate of Incorporation" and "By-laws," respectively) require it to indemnify its directors and officers to the fullest extent permitted by law and permit it to make other indemnification arrangements and agreements;

WHEREAS, the Company desires to provide Indemnitee with specific contractual assurance of Indemnitee's rights to full indemnification against litigation risks and expenses (regardless, among other things, of any amendment to or revocation of the Certificate of Incorporation or By-laws or any change in the ownership of the Company or the composition of its Board of Directors); and

WHEREAS, the Company intends that this Agreement provide Indemnitee with greater protection than that which is provided by the Company's Certificate of Incorporation and By-laws.

NOW, THEREFORE, in consideration of the promises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

1. DEFINITIONS.

(a) "Corporate Status" describes the status of a person (i) who is serving or has served (A) as a director and/or officer of the Company, (B) in any capacity with respect to any employee benefit plan of the Company, or (C) as a director, partner, trustee, officer, employee, or agent of any other Entity at the request of the Company or (ii) who controls or may be deemed to control the Company. For purposes of subsection (C) of Section 1 (a)(i), if Indemnitee is serving or has served as a director, partner, trustee, officer, employee or agent of a Subsidiary, Indemnitee shall be deemed to be serving at the request of the Company.

(b) "Entity" shall mean any corporation, partnership, limited liability company, joint venture, trust, foundation, association, organization or other legal entity.

(c) "Expenses" shall mean all fees, costs and expenses incurred by Indemnitee in connection with any Proceeding (as defined below), including, without limitation, attorneys' fees, disbursements and retainers (including, without limitation, any such fees, disbursements and retainers incurred by Indemnitee

pursuant to Sections 10 and 11(c) of this Agreement), fees and disbursements of expert witnesses, private investigators and professional advisors (including, without limitation, accountants and investment bankers), court costs, transcript costs, fees of experts, travel expenses, duplicating, printing and binding costs, telephone and fax transmission charges, postage, delivery services, secretarial services, and other disbursements and expenses.

(d) "Indemnifiable Expenses," "Indemnifiable Liabilities" and "Indemnifiable Amounts" shall have the meanings ascribed to those terms in Section 3(a) below.

(e) "Liabilities" shall mean judgments, damages, liabilities, losses, penalties, excise taxes, fines and amounts paid in settlement.

(f) "Proceeding" shall mean any threatened, pending or completed claim, action, suit, arbitration, alternate dispute resolution process, investigation, administrative hearing, appeal, or any other proceeding, whether civil, criminal, administrative, arbitral or investigative, whether formal or informal, including a proceeding initiated by Indemnitee pursuant to Section 10 of this Agreement to enforce Indemnitee's rights hereunder.

(g) "Subsidiary" shall mean any corporation, partnership, limited liability company, joint venture, trust or other Entity of which the Company owns (either directly or through or together with another Subsidiary of the Company) either (i) a general partner, managing member or other similar interest or (ii) (A) 50% or more of the voting power of the voting capital equity interests of such corporation, partnership, limited liability company, joint venture or other Entity, or (B) 50% or more of the outstanding voting capital stock or other voting equity interests of such corporation, partnership, limited liability company, joint venture or other Entity.

2. SERVICES OF INDEMNITEE. In consideration of the Company's covenants and commitments hereunder, Indemnitee agrees to continue to serve as a director and/or officer of the Company. However, this Agreement shall not impose any obligation on Indemnitee or the Company to continue Indemnitee's service to the Company beyond any period otherwise required by law or by other agreements or commitments of the parties, if any.

3. AGREEMENT TO INDEMNIFY. The Company agrees to indemnify Indemnitee as follows:

(a) PROCEEDINGS OTHER THAN BY OR IN THE RIGHT OF THE COMPANY. Subject to the exceptions contained in Section 4(a) below, if Indemnitee was or is a party or

is threatened to be made a party to any Proceeding (other than an action by or in the right of the Company) by reason of Indemnitee's Corporate Status, Indemnitee shall be indemnified by the Company against all Expenses and Liabilities incurred or paid by Indemnitee in connection with such Proceeding (referred to herein as "Indemnifiable Expenses" and "Indemnifiable Liabilities," respectively, and collectively as "Indemnifiable Amounts").

(b) PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY. Subject to the exceptions contained in Section 4(b) below, if Indemnitee was or is a party or is threatened to be made a party to any Proceeding by or in the right of the Company by reason of Indemnitee's Corporate Status, Indemnitee shall be indemnified by the Company against all Indemnifiable Expenses.

(c) CONCLUSIVE PRESUMPTION REGARDING STANDARD OF CARE. In making any determination required to be made under Delaware law with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee submitted a request therefor in accordance with Section 5 of this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

4. EXCEPTIONS TO INDEMNIFICATION. Indemnitee shall be entitled to indemnification under Sections 3(a) and 3(b) above in all circumstances other than with respect to any specific claim, issue or matter involved in the Proceeding out of which Indemnitee's claim for indemnification has arisen, as follows:

(a) PROCEEDINGS OTHER THAN BY OR IN THE RIGHT OF THE COMPANY. If indemnification is requested under Section 3(a) and it has been finally adjudicated by a court of competent jurisdiction that, in connection with such specific claim, issue or matter, Indemnitee failed to act (i) in good faith and (ii) in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful, Indemnitee shall not be entitled to payment of Indemnifiable Amounts hereunder.

(b) PROCEEDINGS BY OR IN THE RIGHT OF THE COMPANY. If indemnification is requested under Section 3(b) and

(i) it has been finally adjudicated by a court of competent jurisdiction that, in connection with such specific claim, issue or matter, Indemnitee failed to act (A) in good faith and (B) in a manner Indemnitee reasonably believed to be in or not opposed to

the best interests of the Company, Indemnatee shall not be entitled to payment of Indemnifiable Expenses hereunder; or

(ii) it has been finally adjudicated by a court of competent jurisdiction that Indemnatee is liable to the Company with respect to such specific claim, Indemnatee shall not be entitled to payment of Indemnifiable Expenses hereunder with respect to such claim, issue or matter unless the Court of Chancery or another court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, Indemnatee is fairly and reasonably entitled to indemnification for such Indemnifiable Expenses which such court shall deem proper; or

(iii) it has been finally adjudicated by a court of competent jurisdiction that Indemnatee is liable to the Company for an accounting of profits made from the purchase or sale by the Indemnatee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, the rules and regulations promulgated thereunder and amendments thereto or similar provisions of any federal, state or local statutory law, Indemnatee shall not be entitled to payment of Indemnifiable Expenses hereunder.

(c) INSURANCE PROCEEDS. To the extent payment is actually made to the Indemnatee under a valid and collectible insurance policy in respect of Indemnifiable Expenses in connection with such specific claim, issue or matter, Indemnatee shall not be entitled to payment of Indemnifiable Expenses hereunder except in respect of any excess beyond the amount of payment under such insurance.

5. PROCEDURE FOR PAYMENT OF INDEMNIFIABLE AMOUNTS. Indemnatee shall submit to the Company a written request specifying the Indemnifiable Amounts for which Indemnatee seeks payment under Section 3 of this Agreement and the basis for the claim. The Company shall pay such Indemnifiable Amounts to Indemnatee within sixty (60) calendar days of receipt of the request. At the request of the Company, Indemnatee shall furnish such documentation and information as are reasonably available to Indemnatee and necessary to establish that Indemnatee is entitled to indemnification hereunder.

6. INDEMNIFICATION FOR EXPENSES OF A PARTY WHO IS WHOLLY OR PARTLY SUCCESSFUL. Notwithstanding any other provision of this Agreement, and without limiting any such provision, to the extent that Indemnatee is, by reason of Indemnatee's Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, Indemnatee shall be indemnified against all Expenses reasonably incurred by Indemnatee or on Indemnatee's behalf in connection therewith. If Indemnatee is not wholly successful in such Proceeding but is successful, on the

merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnatee against all Expenses reasonably incurred by Indemnatee or on Indemnatee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Agreement, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, by reason of settlement, judgment, order or otherwise, shall be deemed to be a successful result as to such claim, issue or matter.

7. EFFECT OF CERTAIN RESOLUTIONS. Neither the settlement or termination of any Proceeding nor the failure of the Company to award indemnification or to determine that indemnification is payable shall create a presumption that Indemnatee is not entitled to indemnification hereunder. In addition, the termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not create a presumption that Indemnatee did not act in good faith and in a manner which Indemnatee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal action or proceeding, had reasonable cause to believe that Indemnatee's action was unlawful.

8. AGREEMENT TO ADVANCE EXPENSES; UNDERTAKING. The Company shall advance all Expenses incurred by or on behalf of Indemnatee in connection with any Proceeding, including a Proceeding by or in the right of the Company, in which Indemnatee is involved by reason of such Indemnatee's Corporate Status within ten (10) calendar days after the receipt by the Company of a written statement from Indemnatee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. To the extent required by Delaware law, Indemnatee hereby undertakes to repay any and all of the amount of Indemnifiable Expenses paid to Indemnatee if it is finally determined by a court of competent jurisdiction that Indemnatee is not entitled under this Agreement to indemnification with respect to such Expenses. This undertaking is an unlimited general obligation of Indemnatee.

9. PROCEDURE FOR ADVANCE PAYMENT OF EXPENSES. Indemnatee shall submit to the Company a written request specifying the Indemnifiable Expenses for which Indemnatee seeks an advancement under Section 8 of this Agreement, together with documentation evidencing that Indemnatee has incurred such Indemnifiable Expenses. Payment of Indemnifiable Expenses under Section 8 shall be made no later than ten (10) calendar days after the Company's receipt of such request.

10. REMEDIES OF INDEMNITEE.

(a) RIGHT TO PETITION COURT. In the event that Indemnatee makes a request for payment of Indemnifiable Amounts under Sections 3 and 5 above or a request for an advancement of Indemnifiable Expenses under Sections 8 and 9 above and the Company fails to make such payment or advancement in a timely manner pursuant to the terms of this Agreement, Indemnatee may petition the Court of Chancery to enforce the Company's obligations under this Agreement.

(b) **BURDEN OF PROOF.** In any judicial proceeding brought under Section 10(a) above, the Company shall have the burden of proving that Indemnatee is not entitled to payment of Indemnifiable Amounts hereunder.

(c) **EXPENSES.** The Company agrees to reimburse Indemnatee in full for any Expenses incurred by Indemnatee in connection with investigating, preparing for, litigating, defending or settling any action brought by Indemnatee under Section 10(a) above, or in connection with any claim or counterclaim brought by the Company in connection therewith, whether or not Indemnatee is successful in whole or in part in connection with any such action,

(d) **FAILURE TO ACT NOT A DEFENSE.** The failure of the Company (including its Board of Directors or any committee thereof, independent legal counsel, or stockholders) to make a determination concerning the permissibility of the payment of Indemnifiable Amounts or the advancement of Indemnifiable Expenses under this Agreement shall not be a defense in any action brought under Section 10(a) above, and shall not create a presumption that such payment or advancement is not permissible.

11. DEFENSE OF THE UNDERLYING PROCEEDING.

(a) **NOTICE BY INDEMNITEE.** Indemnatee agrees to notify the Company promptly upon being served with any summons, citation, subpoena, complaint, indictment, information, or other document relating to any Proceeding which may result in the payment of Indemnifiable Amounts or the advancement of Indemnifiable Expenses hereunder; provided, however, that the failure to give any such notice shall not disqualify Indemnatee from the right, or otherwise affect in any manner any right of Indemnatee, to receive payments of Indemnifiable Amounts or advancements of Indemnifiable Expenses unless the Company's ability to defend in such Proceeding is materially and adversely prejudiced thereby.

(b) **DEFENSE BY COMPANY.** Subject to the provisions of the last sentence of this Section 11(b) and of Section 11(c) below, the Company shall have the right to defend Indemnatee in any Proceeding which may give rise to the payment of Indemnifiable Amounts hereunder; provided, however that the Company shall notify Indemnatee of any such decision to defend within ten (10) calendar days of receipt of notice of any such Proceeding under Section 11(a) above. The Company shall not, without the prior written consent of Indemnatee, consent to the entry of any judgment against Indemnatee or enter into any settlement or compromise which (i) includes an admission of fault of Indemnatee or (ii) does not include, as an unconditional term thereof, the full release of Indemnatee from all liability in respect of such Proceeding, which release shall be in form and substance reasonably satisfactory to Indemnatee. This Section 11(b) shall not

apply to a Proceeding brought by Indemnatee under Section 10(a) above or pursuant to Section 19 below.

(c) **INDEMNITEE'S RIGHT TO COUNSEL.** Notwithstanding the provisions of Section 11(b) above, if in a Proceeding to which Indemnatee is a party by reason of Indemnatee's Corporate Status, (i) Indemnatee reasonably concludes that he may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with the position of other defendants in such Proceeding, (ii) a conflict of interest or potential conflict of interest exists between Indemnatee and the Company, or if the Company fails to assume the defense of such proceeding in a timely manner, Indemnatee shall be entitled to be represented by separate legal counsel of Indemnatee's choice at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any action, suit or proceeding to deny or to recover from Indemnatee the benefits intended to be provided to Indemnatee hereunder, Indemnatee shall have the right to retain counsel of Indemnatee's choice, at the expense of the Company, to represent Indemnatee in connection with any such matter.

12. REPRESENTATIONS AND WARRANTIES OF THE COMPANY. The Company hereby represents and warrants to Indemnatee as follows:

(a) **AUTHORITY.** The Company has all necessary power and authority to enter into, and be bound by the terms of, this Agreement, and the execution, delivery and performance of the undertakings contemplated by this Agreement have been duly authorized by the Company.

(b) **ENFORCEABILITY.** This Agreement, when executed and delivered by the Company in accordance with the provisions hereof, shall be a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights generally.

13. INSURANCE. For a period of six (6) years following the date on which Indemnatee no longer serves as a director, officer or employee of the Company or any Subsidiary, and for such longer period, if any, for which Indemnatee may be subject to a Proceeding by reason of Indemnatee's Corporate Status, the Company

(i) shall maintain a policy or policies of insurance with one or more reputable insurance companies providing the Indemnatee with coverage (A) in an amount not less than, and of a type and scope not materially less favorable to Indemnatee than, the directors' and officers' liability insurance coverage presently maintained by the Company, and (B) which coverage will ensure the Company's performance of its indemnification obligations under this Agreement (except for such obligations to Indemnatee if Indemnatee was or is a party or is threatened to be made a party to any Proceeding solely by reason of Indemnatee's Corporate Status as a person that controls or is deemed to control the Company and

not by reason of Indemnatee's Corporate Status as a person serving as a director and/or officer of the Company, in any capacity with respect to any employee benefit plan of the Company, or as a director, partner, trustee, officer, employee, or agent of any other Entity at the request of the Company), (ii) shall pay on a timely basis all premiums on such insurance and (iii) shall provide such notices and renewals in a complete and timely manner and take such other actions as may be required in order to keep such insurance in full force and effect. In all policies of director and officer liability insurance, Indemnatee shall be named as an insured in such a manner as to provide Indemnatee the same rights and benefits as are accorded to the most favorably insured of the Company's officers and directors.

14. **CONTRACT RIGHTS NOT EXCLUSIVE.** The rights to payment of Indemnifiable Amounts and advancement of Indemnifiable Expenses provided by this Agreement shall be in addition to, but not exclusive of, any other rights which Indemnatee may have at any time under applicable law, the Company's Certificate of Incorporation or By-laws, or any other agreement, vote of stockholders or directors (or a committee of directors), or otherwise, both as to action in Indemnatee's official capacity and as to action in any other capacity as a result of Indemnatee's serving as a director and/or officer of the Company.

15. **SUCCESSORS.** This Agreement shall be (a) binding upon all successors and assigns of the Company (including any transferee of all or substantially all of the business, stock and/or assets of the Company and any direct or indirect successor by merger or consolidation or otherwise by operation of law) and (b) binding on and shall inure to the benefit of the heirs, personal representatives, executors and administrators of Indemnatee. In the event that the Company or any of its successors or assigns (i) consolidates with or merges into any other person or entity and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any person or entity, then, and in each such case, proper provision shall be made so that the successors and assigns of the Company assume the obligations of the Company under this Agreement. This Agreement shall continue for the benefit of Indemnatee and his heirs, personal representatives, executors and administrators after Indemnatee has ceased to have Corporate Status.

16. **SUBROGATION.** In the event of any payment of Indemnifiable Amounts under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of contribution or recovery of Indemnatee against other persons, and Indemnatee shall take, at the request of the Company, all reasonable action necessary to secure such rights, including the execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

17. **CHANGE IN LAW.** To the extent that a change in Delaware law (whether by statute or judicial decision) shall permit broader indemnification or advancement of expenses than is provided under the terms of the By-laws and this Agreement, Indemnatee shall be entitled to such broader indemnification and advancements, and this Agreement shall be deemed to be amended to such extent.

18. SEVERABILITY. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement, or any clause thereof, shall be determined by a court of competent jurisdiction to be illegal, invalid or unenforceable, in whole or in part, such provision or clause shall be limited or modified in its application to the minimum extent necessary to make such provision or clause valid, legal and enforceable, and the remaining provisions and clauses of this Agreement shall remain fully enforceable and binding on the parties.

19. INDEMNITEE AS PLAINTIFF. Except as provided in Section 10(c) of this Agreement and in the next sentence, Indemnatee shall not be entitled to payment of Indemnifiable Amounts or advancement of Indemnifiable Expenses with respect to any Proceeding brought by Indemnatee against the Company, any Entity which it controls, any director or officer thereof, or any third party, unless the Board of Directors of the Company has consented to the initiation of such Proceeding. This Section shall not apply to counterclaims or affirmative defenses asserted by Indemnatee in an action brought against Indemnatee.

20. MODIFICATIONS AND WAIVER. Except as provided in Section 17 above with respect to changes in Delaware law which broaden the right of Indemnatee to be indemnified by the Company, no supplement, modification or amendment of this Agreement shall be binding unless executed in writing by each of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement (whether or not similar), nor shall such waiver constitute a continuing waiver.

21. GENERAL NOTICES. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given (a) when delivered by hand, (b) when transmitted by facsimile and receipt is acknowledged, or (c) if mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

(i) If to Indemnatee, to:

Timothy P. Horne
94 Porter Road
Andover, MA 01801

(ii) If to the Company, to:

Watts Industries, Inc. 815 Chestnut Street
North Andover, MA 01845

or to such other address as may have been furnished in the same manner by any party to the others.

22. GOVERNING LAW: CONSENT TO JURISDICTION; SERVICE OF PROCESS. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without

regard to its rules of conflict of laws. Each of the Company and the Indemnitee hereby irrevocably and unconditionally consents to submit to the exclusive jurisdiction of the Court of Chancery of the State of Delaware and the courts of the United States of America located in the State of Delaware (the "Delaware Courts") for any litigation arising out of or relating to this Agreement and the transactions contemplated hereby (and agrees not to commence any litigation relating thereto except in such courts), waives any objection to the laying of venue of any such litigation in the Delaware Courts and agrees not to plead or claim in any Delaware Court that such litigation brought therein has been brought in an inconvenient forum. Each of the parties hereto agrees, (a) to the extent such party is not otherwise subject to service of process in the State of Delaware, to appoint and maintain an agent in the State of Delaware as such party's agent for acceptance of legal process, and (b) that service of process may also be made on such party by prepaid certified mail with a proof of mailing receipt validated by the United States Postal Service constituting evidence of valid service. Service made pursuant to (a) or (b) above shall have the same legal force and effect as if served upon such party personally within the State of Delaware. For purposes of implementing the parties' agreement to appoint and maintain an agent for service of process in the State of Delaware, each such party does hereby appoint The Corporation Trust Company, 1209 Orange Street, Wilmington, New Castle County, Delaware 19801, as such agent and each such party hereby agrees to complete all actions necessary for such appointment.

[signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

WATTS INDUSTRIES, INC.

By: /s/ William C. McCartney

Name: William C. McCartney

Title: Chief Financial Officer

INDEMNITEE

/s/ Timothy P. Horne

Timothy P. Horne

EXHIBIT 10.4

FIRST AMENDMENT TO THE WATTS INDUSTRIES, INC. 1996 STOCK OPTION PLAN

WHEREAS, Watts Industries, Inc. ("Watts") has previously adopted the Watts Industries, Inc. 1996 Stock Option Plan (the "Plan"); and

WHEREAS, pursuant to Section 10 of the Plan, the Watts Board of Directors has the authority to amend the Plan, and the Watts Board of Directors desires to amend the Plan to provide for the annual, automatic grant of options to non-employee members of the Watts Board of Directors under the Plan.

NOW, THEREFORE, the Watts Board of Directors hereby amends the Plan as follows:

1. Section 1 of the Plan is hereby amended by deleting the phrase "incentive for officers and other employees" appearing in the first sentence thereof and replacing it with the phrase "incentive for directors, officers and other employees".

2. Section 4(a) of the Plan is hereby amended by adding the following sentence at the end thereof:

"In addition, to the extent provided in Section 6A hereof, options may be granted or issued to members of the Board of Directors of the Company who are not officers or employees of the Company or its Subsidiaries."

3. The Plan is hereby further amended by adding the following Section 6A between Section 6 and Section 7 of the Plan:

"6A GRANT OF OPTIONS TO NON-EMPLOYEE DIRECTORS

(a) AUTOMATIC GRANT OF OPTIONS. On each of November 1, 2001, and November 1, 2002, each member of the Board of Directors of the Company who is not an officer or employee of the Company or any of its Subsidiaries and who is duly elected and serving as a Director of the Company on such date shall, without any further action by the Board of Directors, automatically be granted on such date a Nonqualified Option to acquire 3,094 shares of Common Stock. All Options granted under this Section 6A shall be immediately vested and exercisable in full upon grant.

(b) EXERCISE PRICE. The exercise price per share for the Common Stock covered by an Option granted under this Section 6A shall be equal to \$10.583.

(c) PERIOD OF OPTION. In no event shall any Option granted under this Section 6A be exercisable after the earlier of (i) the date ten years after the date such Option is granted or (ii) the date on which the Director to whom such Option was granted ceases for any reason to serve as a Director of the Company;

provided, however, that in the event that a Director ceases to serve as a result of disability or death, the Director or his or her personal representative may exercise any outstanding Options not theretofore exercised, to the extent exercisable on the date of such disability or death, during the 90-day period following such disability or death."

4. Section 7(a) of the Plan is hereby amended by deleting the phrase "an appropriate and proportionate adjustment shall be made in the number and kind of shares subject to the Plan, and" appearing in the first sentence thereof and replacing it with the phrase "an appropriate and proportionate adjustment shall be made in the number and kind of shares subject to the Plan, in the number and kind of shares subject to options that are to be automatically granted to non- employee directors under Section 6A hereof, and".

5. This Amendment shall be effective as of October 1, 2001.

6. Except as specifically amended hereby, the Plan shall continue in full force and effect.

IN WITNESS WHEREOF, this Amendment is executed by Watts Industries, Inc. on this 28th day of February, 2003.

WATTS INDUSTRIES, INC.

*By: /s/ William C. McCartney
Title: Chief Financial Officer*

EXHIBIT 10.7

WATTS INDUSTRIES, INC.

PENSION PLAN

(As Amended and Restated Effective as of January 1, 1997)

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INTRODUCTION

The Watts Industries, Inc. Retirement Plan for Salaried Employees, previously known as the Watts Regulator Co. Retirement Plan for Salaried Employees, (hereinafter the "Plan") was established, effective January 1, 1985, as a successor to and a continuation of the Retirement Plan for Salaried Employees of the Watts Regulator Co. and the Retirement Plan for Employees of the Webster Foundry Division (hereinafter "the Prior Plans").

Effective January 1, 1997, Consolidated Precision Corp. adopted the Plan for its Eligible Employees who had been employees of Circle Seal Controls;

Effective January 1, 1998, Ames Company, Inc. adopted the Plan for its Eligible Employees;

Effective March 17, 1998, Atkomatic Valve Company adopted the Plan for its Eligible Employees;

Effective April 1, 1998, Aerodyne Controls Corporation adopted the Plan for its Employees who became Eligible Employees of Circle Seal Corporation on January 5, 1998;

Effective October 18, 1999, the following Employers spun-off from the Plan into the CIRCOR International, Inc. Retirement Plan for Salaried Employees: Circle Seal Controls, Inc., (including Aerodyne Controls Corporation, Consolidated Precision Corp., Keane Controls Corporation, Atkomatic Valve Company), KF Industries, Inc. (including Eagle Value), Industrial Products Division, Leslie Controls, Inc., Spence/Nicholson Engineering Company, Inc.;

Effective January 1, 2001, McCraney, Inc. (dba "Spacemaker") and Watts Heatway, Inc. (now called Watts Radiant, Inc.) adopted the Plan for their Eligible Employees; and

Effective January 1, 2002, Premier Manufactured Systems, Inc. adopted the Plan for its Eligible Employees.

Watts Industries, Inc. (hereinafter the "Sponsoring Employer") is hereby amending and restating the Plan, as hereinafter set forth, unless specifically stated otherwise, effective January 1, 1997 and such later dates as may be specified herein to comply with the General Agreement on Tariffs and Trade, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small

Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and other applicable laws.

Effective December 31, 2001, the Watts Industries, Inc. Hourly Pension Plan was merged into the Plan and its terms and conditions were incorporated into the Plan as Part A. Effective January 1, 2002, the Plan was renamed the Watts Industries, Inc. Pension Plan.

It is the intention of the Employer that the Plan as herein amended and restated shall continue to be recognized as a qualified pension plan under Sections 401(a) and 501(a) of the Internal Revenue Code. The provisions of the Plan as set forth in this Plan document shall apply only to an Eligible Employee who terminates employment on or after the effective date of a provision as set forth herein. The rights and benefits, if any, of an Employee who terminated employment prior to the effective date of a provision as set forth herein shall be determined in accordance with the provisions of the Plan as in effect on the date his employment terminated.

(ii)

ARTICLE I - DEFINITIONS

The following words and phrases shall be defined as stated unless a different meaning is plainly required by the context:

- 1.01 "ACCUMULATED CONTRIBUTIONS ACCOUNT" means (i) the sum of the amounts, if any, contributed prior to January 1, 1987 by the Participant to the Pension Plan for Employees of Spence Engineering Company, plus (ii) 5% interest per year through December 31, 1987 and at the rate(s) provided under Section 411(c)(2)(C)(iii) of the Code from January 1, 1988 to the first day of the calendar month coincident with or immediately following the date of withdrawal or the date of benefit commencement.
- 1.02 "ACTUARIAL EQUIVALENT" or any term of similar import, wherever used in the Plan, means a benefit of equivalent value determined as follows:
- (a) For purposes of any determination requiring actuarial equivalence under Article 15, the Actuarial Equivalent will be determined using a 5% interest rate and the UP-1984 Mortality Table for employees and the UP-1984 Mortality Table set back three years for beneficiaries;
 - (b) The following provisions of this subsection (b) shall apply to Limitation Years beginning on or after January 1, 1995. For purposes of Section 5.04(e), the Actuarial Equivalent shall be determined using either an interest rate of 7% and the UP-1984 Mortality Table or an interest rate of 5% and the mortality table prescribed by the IRS Commissioner in Rev. Rul. 95-6, 1995-1 CB 80, whichever produces a larger reduction in the maximum annual amount. For purposes of Section 5.04(f), the Actuarial Equivalent shall be determined using either an interest rate of 7% and the UP-1984 Mortality Table or an interest rate of 5% and the mortality table prescribed by the IRS Commissioner in Rev. Rul. 95-6, 1995-1 CB 80, whichever produces the smaller increase in the maximum annual amount. For purposes of Section 5.04(g), the Actuarial Equivalent will be determined using either an interest rate of 7% and the UP-1984 Mortality Table or an interest rate of 5% and the mortality table prescribed by the IRS Commissioner in Rev. Rul. 95-6, 1995-1 CB 80, whichever produces the larger single life annuity. In the event the benefit is payable in the form of a lump sum payment, the 5% interest rate shall be replaced by the rate on 30-year Treasury Constant Maturities for the month of November prior to the Plan Year of the distribution date;

(c) For purposes of Section 8.05, 12.01, and 12.02, Actuarial Equivalent will be determined by using the mortality table prescribed by the IRS Commissioner in Rev. Rul. 95-6, 1995-1 CB 80, and using an interest rate equal to the rate on 30-year Treasury Constant Maturities for the month of November prior to the Plan Year of the distribution date;

(d) For purposes of subsections (b) and (c) above, the term "distribution date" means the date as of which an amount is paid, except with respect to payments under Section 12.01, in which case, it means the first day of the month following the month in which the Participant terminates employment; and

(e) For purposes of Article 13, the Actuarial Equivalent will be determined as specified in regulations promulgated by the Pension Benefit Guaranty Corporation.

(f) For all other purposes, the Actuarial Equivalent will be

determined using a 7% interest rate and the UP-1984 Mortality Table for employees and the UP-1984 Mortality Table set back three years for beneficiaries;

1.03 "ACTUARY" means the actuarial consultant or actuarial consultants designated from time to time to make actuarial computations in connection with the Plan.

1.04 "AFFILIATED EMPLOYER" means any of the following (other than the Employer):

- (a) Any corporation which is a member of a controlled group of corporations which includes the Employer, determined under the provisions of Section 414(b) of the Code;
- (b) Any trade or business which is under common control (as defined in Section 414(c) of the Code) with the Employer;
- (c) Any organization which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Employer; and

(d) Any other entity required to be aggregated with the Employer

pursuant to regulations under Section 414(o) of the Code.

A corporation, trade or business or member of an affiliated service group shall be treated as an Affiliated Employer only while it is a member of the controlled group.

- 1.05 "BENEFICIARY" means any person other than a Contingent Annuitant entitled to receive any death benefits payable upon the death of the Participant.
- 1.06 "BOARD OF DIRECTORS" or "BOARD" means the Board of Directors of Watts Industries, Inc. or any successor thereto.
- 1.07 "CODE" means the Internal Revenue Code of 1986, as amended from time to time. Reference to a specific provision of the Code shall include such provision, any valid regulation or ruling promulgated thereunder, and any provision of future law that amends, supplements, or supersedes such provision.
- 1.08 "COMMITTEE" means the Pension Plan Committee appointed to administer the Plan as set forth in Article 10.
- 1.09 "COMPENSATION" shall mean the total compensation payable to an Employee by the Employer and reportable to the Federal Government for income tax purposes on Form W-2, or any form prescribed by the Internal Revenue Service to take its place, including salary, bonuses, commissions and overtime pay, but excluding stock option rights, any severance pay or termination pay, moving expenses, tuition reimbursement and other forms of extraordinary earnings or the value thereof.

Compensation includes contributions made on behalf of an Employee by the Employer pursuant to a salary deferral agreement under Section 401(k) of the Code and/or a salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code.

In no event shall a Participant's Compensation taken into account under the Plan for any Plan Year exceed \$150,000 or such other amount as the Secretary of the Treasury may determine for such Plan Year in accordance with Section 401(a)(17) of the Code. Any

change in the dollar amount set forth above as adjusted by the Secretary of the Treasury in accordance with Section 401(a)(17) of the Code shall apply only to Compensation taken into account for Plan Years beginning with the Plan Year in which such change is effective.

For purposes of Section 1.18, Compensation shall also mean compensation paid by an Affiliated Employer prior to the effective date of its inclusion in this Plan.

- 1.10 "CONTINGENT ANNUITANT" means the person designated by the Participant to receive a benefit under the Contingent Annuitant Option following the death of the Participant in accordance with Article 8.
- 1.11 "COVERED COMPENSATION" means, for any Plan Year, the average (without indexing) of the Social Security Taxable Wage Bases in effect at the beginning of the Plan Year under Section 230 of the Social Security Act for each calendar year during the 35-year period ending with the last day of the calendar year in which the Participant attains or will attain his or her Social Security Retirement Age. In determining a Participant's Covered Compensation for a Plan Year, the Social Security Taxable Wage Base for the current Plan Year and any subsequent Plan Year shall be assumed to be the same as those in effect for the Plan Year for which the determination is being made. A Participant's Covered Compensation for any Plan Year after the 35-year period is the Participant's Covered Compensation for the Plan Year in which the Participant attained his or her Social Security Retirement Age.

A Participant's Covered Compensation shall be automatically adjusted for each Plan Year in accordance with these rules.

- 1.12 "EFFECTIVE DATE" means January 1, 1997 for this restated Plan. The original Effective Date of the Plan is January 1, 1985.
- 1.13 "ELIGIBLE EMPLOYEE" means any person who is an Employee of the Employer and who is paid on a salaried basis, including any officer or director engaged in a capacity other than solely as a director. The term "Employee" shall not include any person employed by the Employer who is covered under a collective bargaining agreement which does not provide

for this Plan, or any Employee who is a leased employee within the meaning of Section 414(n)(2) of the Code.

- 1.14 "EMPLOYEE" means any person currently employed by the Employer or an Affiliated Employer. The term Employee also includes any leased employees of the Employer or an Affiliated Employer within the meaning of Section 414(n)(2) of the Code to the extent such employees are deemed to be "Employees" in accordance with the provisions of Section 16.04.
- 1.15 "EMPLOYER" means Watts Industries, Inc., or any successor thereto, and any other entity now or hereafter affiliated with Watts Industries, Inc. which adopts this Plan by vote of its Board and with the consent of Watts Industries, Inc. The term "Employer" also includes all of the foregoing as the context may require. As of January 1, 1997, the following Affiliated Employers have adopted the Plan and are therefore considered to be an Employer: Watts Regulator Company, Spence Engineering Co., Inc., KF Industries, Inc., Leslie Controls, Inc., Rudolph Labranche, Inc., Watts Automatic Control Valve Company, Inc., Circle Seal Controls, Inc., Contromatics, Inc., Nicholson Steam Trap, Inc., KF Sales Corp., Anderson-Barrows Metal Corporation and Webster Valve, Inc. Effective January 1, 1998, the term "Employer" includes Ames Company, Inc. Effective October 18, 1999, Industrial Products Division, KF Industries, Inc. (including Eagle Value), Circle Seal Controls, Inc., (including Aerodyne Controls Corporation, Consolidated Precision Corp., Keane Controls Corporation, Atkomatic Valve Company), Leslie Controls, Contromatics, Inc. and Spence/Nicholson Engineering Company, Inc. are no longer considered to be an Employer due to their spin-off to CIRCOR International, Inc. Effective January 1, 2001, the term "Employer" includes McCraney (dba "Spacemaker") and Watts Radiant, Inc. (formerly called Watts Heatway, Inc.). Effective January 1, 2002, the term "Employer" includes Premier Manufactured Systems, Inc.
- 1.16 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Reference to a specific provision of ERISA shall include such provision, any valid regulation or filing promulgated thereunder, and any provision of future law that amends, supplements, or supersedes such provision.

- 1.17 "FIDUCIARY" means the Employer, the Committee, the Trustee, and/or other parties named as Fiduciaries pursuant to Section 10.1, but only with respect to the specific responsibilities of each for Plan and Trust administration, as described in Article 10.
- 1.18 "FINAL AVERAGE COMPENSATION" means the average of the Employee's Compensation for the sixty (60) consecutive months during the last one hundred and twenty (120) months of his Service prior to his Normal Retirement Date (as defined in Section 4.01) for which he received the highest total Compensation. If a Participant has not completed at least sixty (60) months of Service with the Employer, his Final Average Compensation shall be the average of his Compensation during his period of Service with the Employer.
- 1.19 "HIGHLY COMPENSATED EMPLOYEE" means any active Employee who performed services for the Employer or an Affiliated Employer during the Determination Year and who:
- (a) was a 5% owner (within the meaning of Section 416(i)(1)(B)(i) of the Code at any time during the Determination Year or the Look-Back Year; or
 - (b) received compensation from the Employer or an Affiliated Employer in excess of \$80,000 (as adjusted pursuant to 415(d) of the Code) during the Look-Back Year, and was among the to 20% of Employees when ranked on the basis of compensation paid during the Look-Back Year.

The term Highly Compensated Employee shall also include any former Highly Compensated Employee who terminated employment with the Employer or an Affiliated Employer prior to the Determination Year, performs no services for the Employer or an Affiliated Employer during the Determination Year, and was a Highly Compensated Employee in either his or her year of termination of employment or in any Determination Year ending on or after his attainment of age 55.

For purposes of determining an Employee's compensation under this Section 1.20, compensation shall mean the "Employee's Section 415 compensation" (as defined in Section 5.04(c)) reportable on Form W-2, plus all contributions made on behalf of the Employee by the Employer or an Affiliated Employer pursuant to a salary deferral agreement maintained by the Employer or an Affiliated Employer under any cash or deferred arrangement described in Section 401(k) of the Code or any salary reduction

agreement pursuant to a cafeteria plan established under Section 125 of the Code by the Employer or Affiliated Employer, and effective January 1, 2001, any amounts deferred under Section 132(f)(4) of the Code.

For purposes of this Section, the "Look-Back Year" means the period of the twelve consecutive months immediately preceding the Determination Year. Also for purposes of this Section, "Determination Year" means the Plan Year that is being tested for purposes of determining if an Employee is a Highly Compensated Employee.

1.20 "LIMITATION YEAR" means the calendar year.

1.21 "MAXIMUM OFFSET ALLOWANCE" means at Social Security Retirement Age, (i), (ii), or (iii) below, whichever is applicable, (i) if a Participant's Social Security Retirement Age is 65, .0075 of his Social Security Compensation; (ii) if a Participant's Social Security Retirement Age is 66, .0068 of his Social Security Compensation; or (iii) if a Participant's Social Security Retirement Age is 67 or higher, .00625 of his Social Security Compensation, multiplied by his years of Benefit Service (up to a maximum of 25 years).

Notwithstanding the foregoing, the Maximum Offset Allowance shall not exceed 1/2 of the benefit determined without regard to the offset, based on the lesser of Social Security Compensation or Final Average Compensation.

1.22 "NORMAL RETIREMENT AGE" means the Participant's age on the later of: (a) the Participant's 65th birthday; or (b) the earlier of (i) five years of Service, or (ii) the fifth anniversary of the date on which the Participant began participation in the Plan, except with respect to a Participant who on December 31, 1991 was participating in the Spence Plan or who on October 1, 1993 was participating in the Henry Pratt Plan, the term "Normal Retirement Age" means the Participant's 65th birthday.

1.23 "PARTICIPANT" means any Employee who has satisfied the eligibility requirements for participation in the Plan as set forth in Article 3 and is a Participant hereof.

- 1.24 "PLAN" means the Watts Industries, Inc. Retirement Plan for Salaried Employees as described in this instrument and as it may be amended hereafter. Effective January 1, 2002, the name of the Plan was changed to Watts Industries, Inc. Pension Plan.
- 1.25 "PLAN ADMINISTRATOR" means the Committee, notwithstanding the fact that certain administrative functions under or with respect to this Plan may have been delegated to any other person, persons, or entity.
- 1.26 "PLAN YEAR" means the twelve-month period beginning on January 1 and ending on the following December 31.
- 1.27 "PRIOR PLAN" means each or both, as the context may require, of the following: (a) the Retirement Plan for Salaried Employees of the Watts Regulator Co., and (b) the Retirement Plan for Employees of the Webster Foundry Division.
- 1.28 "RETIRED PARTICIPANT" means a former Participant who has retired under the terms of the Plan and who has become eligible to receive benefits under the Plan.
- 1.29 "SOCIAL SECURITY BENEFIT" means the primary insurance benefit payable annually to an Employee under Title II of the Social Security Act as in effect on the date he terminates his employment or on his Normal Retirement Date (as defined in Section 4.01), if earlier, computed without regard to any reduction or loss of benefits which may result due to other income, delay in making application or any other reason; provided, however, that in the case of an Employee who terminates his employment prior to his attainment of age sixty-five, his Social Security Benefit shall be computed in accordance with the following provisions:
- (a) If such Employee has satisfied the eligibility requirements for Early Retirement under Section 4.02 prior to his termination, his Social Security Benefit will be based on the assumption that he received no further compensation from his termination date until he reached age sixty-five;
 - (b) If such Employee has not satisfied the requirements for Early Retirement under Section 4.02 prior to his termination, his Social Security Benefit will be based on the assumption that he remained in the Service of the Employer until he reached age

sixty-five and that he continued to receive the same rate of compensation from the Employer as in effect on his termination date until he reached age sixty-five.

The income used for purposes of computing a Participant's Social Security Benefit will be the portion of his annual Compensation which is treated as wages for purposes of the Social Security Act. The Participant's income earned prior to his first full year of employment as an Employee will be estimated by applying a 6% salary scale projected backwards from his first full year of employment with the Employer.

In the event the Participant furnishes the Committee with documentation from the Social Security Administration of his actual salary history on a year-by-year basis, the Participant's Social Security Benefit will be adjusted accordingly. The Participant must make application to the Social Security Administration for such information during a reasonable period of time, but not longer than six (6) months after the later of (i) the date the Participant ceases working for the Company, and (ii) the date the Participant is notified of his benefit under this Plan. If a Participant's benefit is adjusted in accordance with this Section 1.30, the adjusted benefit will commence after the date the Participant furnishes to the Committee documentation of his actual salary history.

- 1.30 "SOCIAL SECURITY COMPENSATION" means the lesser of the Participant's Covered Compensation or the average of the Participant's Compensation in the three year period ending with the Plan Year of termination or retirement. In determining a Participant's Compensation for any such year, earnings in excess of the Social Security Taxable Wage Base in effect for each year shall be disregarded.

1.31 "SOCIAL SECURITY RETIREMENT AGE" means:

- (a) for persons born prior to 1938, age 65;
- (b) for persons born in 1938 or later but prior to 1955, age 66; and
- (c) for persons born in 1955 or later, age 67.

- 1.32 "SOCIAL SECURITY TAXABLE WAGE BASE" means the contribution and benefit limit in effect under Section 230 of the Social Security Act on the first day of the Plan Year.

- 1.33 "SPONSORING EMPLOYER" means Watts Industries, Inc. or any successor thereto.

- 1.34 "TERMINATED PARTICIPANT" means a former Participant who has ceased to be an Employee prior to his Normal Retirement Date (as defined in Section 4.01) for any reason other than death or retirement in accordance with the terms of the Plan.
- 1.35 "TRUST" means the agreement between the Employer and the Trustee which constitutes part of this Plan, or any other Trust created by agreement between the Employer and a Trustee named therein which shall also constitute a part of this Plan, as the same may be amended from time to time.
- 1.36 "TRUST FUND" or "TRUST" means the Watts Industries, Inc. Master Trust, maintained in accordance with the terms of the agreement under which the Trust was established, as it may be amended from time to time.
- 1.37 "TRUSTEE" means the person, persons, or entity named as Trustee, or any successor to that office.

ARTICLE 2 - SERVICE

2.01 SERVICE PRIOR TO JANUARY 1, 1985

With respect to employment prior to January 1, 1985, Service shall mean "Service" as defined under the Prior Plans.

2.02 CREDITING OF SERVICE ON OR AFTER JANUARY 1, 1985

An Employee must accumulate at least 1,000 Hours of Service during a 12-month computation period in order to be credited with a year of Service. The 12-month computation period for purposes of determining a year of Service for vesting under Section 6.02 is the Plan Year. The 12-month computation period for purposes of determining a Year of service for eligibility under Section 3.01 is the 12-month period beginning when the Employee first performs an Hour of Service and the subsequent computation periods shall be the Plan Year beginning with the Plan Year that includes the first anniversary of the date the Participant first performs an Hour of Service. The 12-month computation period for purposes of determining a year of Service for Benefit Service purposes as set forth in Section 2.05 is the Plan Year. During any computation period during which an Employee's Hours of Service cannot be determined, the Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes one Hour of Service.

Notwithstanding any other provision of this Section 2, Service with the entities listed in Section 3.01(b) shall be taken into account for eligibility and vesting purposes.

2.021 BREAK IN SERVICE DEFINED ON AND AFTER JANUARY 1, 1985

Service shall be considered broken by the following, provided that Service will not be broken during any Plan Year in which an Employee

completes more than 500 Hours of Service:

(a) voluntary quit;

- (b) discharge;
- (c) illness or injury in excess of one year;
- (d) layoff in excess of one year;
- (e) authorized leave of absence in excess of one year;
- (f) failure to return to the Service of the Employer upon the

expiration of an authorized leave of absence; or within the period of time entitling an Employee to reemployment rights after discharge from the Armed Forces of the United States of America.

For purposes of the Plan, a one year Break in Service shall be deemed to have occurred at the end of any Plan Year in which an Employee fails to accumulate more than 500 Hours of Service.

2.022 RECREDITING OF SERVICE UPON REEMPLOYMENT

If a Participant incurs a Break-in-Service and is subsequently reemployed and he thereafter meets the definition of Eligible Employee and completes one year of Service, as provided in Section 3.03, his prior Service shall be reinstated as of his date of reemployment.

2.03 HOUR OF SERVICE DEFINED

Hour of Service means:

- (a) Each hour for which an Employee is directly or indirectly paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer, such hours to be credited to the computation period in which the duties are performed;
- (b) Each hour for which an Employee is directly or indirectly paid or entitled to payment on account of a period of time during which no duties are performed for the Employer or an Affiliated Employer (irrespective of whether the employment

relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), lay-off, jury duty, military duty or leave of absence (but excluding any payments made or due under a plan maintained solely for the purpose of complying with workmen's compensation, unemployment compensation, or disability insurance laws); provided, however, that no more than 501 hours shall be credited to an Employee under this paragraph (b) on account of any single continuous period of absence;

- (c) Each hour, not credited under (a) or (b) above during any absence listed in Section 2.02, which does not break his Service, provided that the Employee retires or returns to the employ of the Employer or an Affiliated Employer upon the expiration of such absence;
- (d) Each hour not counted under paragraphs (a), (b), or (c) above for which back pay, irrespective of mitigation of damages, is awarded or agreed to by the Employer or an Affiliated Employer; such hours to be credited under the computation period to which the back pay award or agreement is applicable;
- (e) Hours credited under paragraphs (b) and (c) above shall be computed on the basis of the number of hours for which the Employee would have been compensated if he had continued to work his regular work schedule during his period of absence; provided, however, that in the case of hours credited under paragraph (b), such number of hours shall not be less than the number of hours the Employee would receive if such computation had been made in accordance with the provisions of Section 2530.200b-2(b) and (c) of the Labor Department Regulations which are incorporated herein by reference.
- (f) Solely for purposes of determining whether a Break-in-Service has occurred with respect to Section 2.021, each non-compensated hour during a period of absence from the Employer (i) by reason of the Employee's pregnancy, (ii) by reason of the birth of the Employee's child, (iii) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement shall be credited to the Employee. For purposes of this subsection

(f) the following special rules will apply:

(i) any Hour of Service credited hereunder with respect to an absence shall be credited (A) only in the Plan Year in which the absence begins, if the Employee would be prevented from incurring a Break-in-Service in such year solely because of Hours of Service credited hereunder for such absence, or (B) in any other case in the immediately following Plan Year;

(ii) no Hours of Service shall be credited hereunder unless the Employee furnishes the Committee with such information as the Committee may reasonably require (in such form and at such time as the Committee may reasonably require) establishing (A) that the absence from work is an absence described hereunder, and (B) the number of days for which the absence lasted;

(iii) in no event shall more than 501 Hours of Service be

credited to an Employee hereunder for any absence by reason of any one pregnancy or the placement of any one child.

Hours of Service to be credited to an individual during an absence described in this Section 2.03(f) above will be determined by the Committee with reference to the individual's most recent normal work schedule; provided that if the Committee cannot so determine the number of Hours to be credited, there shall instead be credited eight (8) Hours of Service for each day of absence.

2.04 BENEFIT SERVICE

With respect to employment prior to January 1, 1985, Benefit Service shall mean "Benefit Service" as defined in the Prior Plans.

With respect to employment on and after January 1, 1985, Benefit Service, for purposes of determining a Participant's benefit under the Plan means his years of Service earned as an Eligible Employee excluding any service prior to such Eligible Employee's twenty first birthday. For purposes of this Section 2.05, a year of Service is any Plan Year in which the Participant is credited with 1000 Hours of Service. During any computation period in which an Eligible Employee's Hours of Service cannot be determined, the

Eligible Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes one Hour of Service.

However, if an Eligible Employee does not have 1,000 Hours of Service in a Plan Year because he or she enters or, following a Break in Service, re-enters employment with the Employer after the first day of a Plan Year or terminates his or her employment or retires prior to the end of a Plan Year, he or she shall be deemed to have accrued a partial year of service for such Plan Year equal to the ratio that his or her credited Hours of Service for such Plan Year bears to 1,000.

2.05 VETERAN'S BENEFITS

Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Internal Revenue Code.

ARTICLE 3 - PARTICIPATION

3.01 PARTICIPATION REQUIREMENTS

(a) Subject to the provisions of paragraph (b) below:

Any Eligible Employee who was a Participant on December 31, 1996 shall continue to participate in the Plan as of January 1, 1997 in accordance with the provisions of this restated Plan.

Any other Eligible Employee shall become a Participant on the first day of the month coinciding with or next following the date on which he has both attained age 21 and completed at least one year of Service, provided he is then an Eligible Employee.

(b) Notwithstanding any provision in the Plan to the contrary, the following provisions shall apply:

(i) Effective January 1, 1987, a nonunion employee of James Jones Company on or after December 19, 1986 shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with James Jones Company from the later of December 31, 1969 or date of hire by James Jones Company and prior to January 1, 1987 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1987 and shall end on the earlier of September 4, 1996 or the date a Participant terminates his Service.

(ii) Effective January 1, 1989, an Eligible Employee of KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or Watts Automatic Control Valve Company, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or

Watts Automatic Control Valve Company, Inc. prior to January 1, 1989 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1989. Service with KF Industries, Inc. and Leslie Controls, Inc. for all purposes shall not be taken into account after October 18, 1999.

(iii) Effective July 19, 1990, an Eligible Employee of Nicholson Steam Trap, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of Article II of the Plan, service with Nicholson Steam Trap, Inc. prior to July 19, 1990 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after July 19, 1990. Service with Nicholson Steam Trap, Inc. for all purposes shall not be taken into account after October 18, 1999.

(iv) Effective September 7, 1990, an Eligible Employee of Circle Seal Controls, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Circle Seal Controls, Inc. prior to September 7, 1990 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after September 7, 1990. Service with Circle Seals Controls, Inc. for all purposes shall not be taken into account after October 18, 1999.

(v) Effective January 1, 1991, an Eligible Employee of Industrial Products Division shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Industrial Products Division prior to January 1, 1991 shall be recognized for all purposes. Service with Industrial Products Division for all purposes shall not be taken into account after October 18, 1999.

(vi) Effective January 1, 1991, an Eligible Employee of Eagle Valve shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of

Service. Subject to the rules of the Plan, service with Eagle Valve prior to January 1, 1991 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1991. Service with Eagle Valve for all purposes shall not be taken into account after October 18, 1999.

(vii) Effective December 31, 1991, an Eligible Employee of Spence Engineering Company, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with of Spence Engineering Company, Inc. prior to January 1, 1992 shall be recognized for all purposes. Service for benefit accrual purposes shall begin on or after January 1, 1992. Service with of Spence Engineering Company, Inc. for all purposes shall not be taken into account after October 18, 1999.

(viii) Effective January 1, 1993, an Eligible Employee of Contromatics, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Contromatics, Inc. prior to January 1, 1993 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1993. Service with Contromatics, Inc. for all purposes shall not be taken into account for October 18, 1999.

(ix) Effective October 1, 1993 an Eligible Employee of Henry Pratt Company shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Henry Pratt Company prior to October 1, 1993 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after October 1, 1993 and shall end on the earlier of September 4, 1996 or the date a Participant terminates his Service.

(x) Effective August 31, 1995, a salaried employee of Keane Controls Corporation who became an employee of Circle Seal Controls, Inc. shall

become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of August 31, 1995 or the date such Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Keane Controls Corporation, prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing August 31, 1995. Service with Keane Controls Corporation for all purposes shall not be taken into account after October 18, 1999.

(xi) Effective January 1, 1996 an Eligible Employee of Anderson-Barrows Metal Corporation shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Anderson-Barrows Metal Corporation prior to January 1, 1996 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1996.

(xii) Effective January 1, 1997, an employee of Consolidated Precision Corp. who became an employee of Circle Seals Controls shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of January 1, 1997 or the date the Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Consolidated Precision Corp. prior to its acquisition by the Employer shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1997. Service with Consolidated Precision Corp. for all purposes shall not be taken into account after October 18, 1999.

(xiii) Effective January 1, 1998, a salaried employee of Ames Company, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 1998 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Ames Company, Inc. prior to its

acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1998.

(xiv) Effective March 17, 1998, a salaried employee of Atkomatic Valve Company who became an employee of Circle Seal Controls, Inc. shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of March 17, 1998 or the date the Eligible Employee meets the requirements of Section

3.01(a). An Eligible Employee's service with Atkomatic Valve Company, prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing March 17, 1998. Service with Atkomatic Valve Company for all purposes shall not be taken into account after October 18, 1999.

(xv) Effective April 1, 1998, a salaried employee of Aerodyne Controls Corporation who became an Eligible Employee of Circle Seal Corporation on January 5, 1998 shall be eligible to participate in the Plan on the first day of the month coinciding with or next following the date he attains age 21 and completes one year of Service. Service with Aerodyne Controls Corporation prior to January 5, 1998 shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing April 1, 1998. Service with Aerodyne Controls Corporation for all purposes shall not be taken into account after October 18, 1999.

(xvi) Effective January 1, 2001, a salaried employee of McCraney, Inc. (dba "Spacemaker") or Watts Heatway, Inc. (now called Watts Radiant, Inc.) shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2001 or the date the Eligible Employee meets the requirements of Section

3.01(a). Such Eligible Employee's service with of McCraney, Inc. (dba "Spacemaker")

or Watts Heatway, Inc. (now called Watts Radiant, Inc.) prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2001.

(xvii) Effective November 1, 2001, a salaried employee of Powers Process Controls Division of Marks Controls Corporation (PPC) shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of November 1, 2001 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with PPC prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing November 1, 2001.

(xviii) Effective January 1, 2002, a salaried employee of Premier Manufactured Systems, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2002 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with of Premier Manufactured Systems, Inc. prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2002.

3.02 PARTICIPATION UPON REEMPLOYMENT

(a) Subject to the provisions of paragraph (b) below, each Participant who is reemployed following a Break in Service pursuant to Section 2.021 shall participate again as of his reemployment date provided he has met the requirements of Section 2.022.

(b) For participants who participated in the Spence Plan on December 31, 1991

(i) Reemployment of Terminated Participant who is Vested in Retirement Benefit.

- a. In the event of the reemployment of a Terminated Participant who has met the requirements for a Vested Benefit under Section 6.02(a), such Terminated Participant shall be entitled to participate in the Plan immediately upon reemployment.
- b. If such Terminated Participant has not received a refund of the balance in his Accumulated Contributions Account, his Benefit Service before his termination of employment will be fully restored and combined with his subsequent Benefit Service to calculate his benefit under the Plan upon his subsequent retirement or other termination of employment.
- c. If such Terminated Participant has received a refund of the balance in his Accumulated Contribution Account, he may repay such amount to the Employer pursuant to the requirements set forth in subparagraph (iii) below. If he repays such amount, his Benefit Service before his termination of employment will be fully restored and combined with his subsequent Benefit Service to calculate his benefit under the Plan upon his subsequent retirement or other termination of employment. If he does not repay such amount, upon his subsequent retirement or other termination of employment he shall be entitled to receive a benefit equal to the benefit provided in Section 5.03 as of his initial termination date plus a benefit calculated using the Benefit Service credited to him from the date of reemployment to his subsequent retirement or other termination of employment.

(ii) Reemployment of Terminated Participant who is Not Vested in Retirement Benefit.

- a. In the event of the reemployment of a Terminated Participant who has not incurred a Break in Service, but who has not met the

requirements for a Vested Benefit under Section 6.02(a), such Terminated Participant shall be entitled to participate in the Plan immediately upon his reemployment.

(1) If such Terminated Participant has not received a refund of the balance in his Accumulated Contribution Account, his Benefit Service before his termination of employment will be combined with his subsequent Benefit Service to calculate his benefit under the Plan upon his subsequent retirement or other termination of employment.

(2) If such Terminated Participant has received a refund of the balance in his Accumulated Contribution Account, he may repay such amount to the Employer pursuant to the requirements set forth in subparagraph (iii) below. If he repays such amount, his Benefit Service before his termination of employment will be combined with his subsequent Benefit Service to calculate his benefit under the Plan upon his subsequent retirement or other termination of employment. If such Terminated Participant does not repay such amount, upon his subsequent retirement or other termination of employment he shall be entitled to a benefit calculated using the Benefit Service credited to him from the date of reemployment to his subsequent retirement or other termination of employment. If such Terminated Participant does not repay such amount, upon his subsequent retirement or other termination of employment his benefit shall be calculated using Benefit Service as defined in Section 2.05 provided, however, that Benefit Service prior to January 1, 1987 shall not be included.

(iii) REPAYMENT - A Terminated Participant who has received a refund of the balance in his Accumulated Contribution Account and who has subsequently resumed employment prior to incurring five consecutive one-year Breaks in Service may repay to the Employer for credit to the Fund the

full amount of such cash settlement with interest compounded annually at the rate of 5% per annum (or such other rate as may be prescribed by the Secretary of the Treasury) from the date as of which such cash settlement was determined to the date of repayment. Repayment must be made prior to the occurrence of the earlier of five consecutive one-year Breaks in Service, or five years after the date of reemployment.

ARTICLE 4 - RETIREMENT DATES

4.01 NORMAL RETIREMENT DATE

The Normal Retirement Date of a Participant shall be the first day of the month coinciding with or next following his Normal Retirement Age.

4.02 EARLY RETIREMENT DATE

Except as provided below, a Participant who has reached his fifth-fifth birthday and who has completed at least ten years of Service may elect upon written notice to the Committee on an Early Retirement Date which may be the first day of any month subsequent to the date of such election and prior to his Normal Retirement Date.

Notwithstanding the foregoing, in the case of a Participant who was hired prior to January 1, 1992 (excluding a former participant of the Spence Plan or the Henry Pratt Plan) who has reached his fifty-fifth birthday and who has completed at least five years of Service may elect upon written notice to the Committee an Early Retirement Date which may be the first day of any month subsequent to the date of such election and prior to his Normal Retirement Date.

4.03 DEFERRED RETIREMENT DATE

If a Participant remains in the Service of the Employer or an Affiliated Employer after his Normal Retirement Date, his Deferred Retirement Date shall be the first day of the month which coincides with or next follows the date of his actual retirement.

ARTICLE 5 - RETIREMENT BENEFITS

5.01 FORM OF NORMAL RETIREMENT BENEFIT

Except as provided in Section 5.02, a Participant's Normal Retirement Benefit under the Plan shall be an annuity for life, payable monthly, commencing on the Participant's Normal Retirement Date (as defined in Section 4.01) and terminating with the monthly payment preceding his death.

5.02 SPOUSE JOINT AND SURVIVOR ANNUITY

In lieu of the life annuity payable under Section 5.01, a Participant who is married on his benefit commencement date shall receive his retirement benefit in the form of a Spouse Joint and Survivor Annuity as described in Section 5.021, provided he has not made an election under Section 5.022 to have his benefit paid under the life annuity form described in Section 5.01 or under an optional form described in Section 5.051 or Article 8.

5.021 AMOUNT OF SPOUSE JOINT AND SURVIVOR ANNUITY

The Spouse Joint and Survivor Annuity shall be a reduced amount payable to a Participant for his lifetime with provision for continuation of 50% of such reduced amount to the Participant's spouse for the duration of the spouse's lifetime after the death of the Participant

All such amounts shall be the Actuarial Equivalent of the benefits set forth hereafter in this Article 5 which are payable on a single life basis.

5.022 ELECTION OUT OF SPOUSE JOINT AND SURVIVOR ANNUITY

A married Participant may elect, pursuant to Section 5.024, not to receive his benefit in the form of the Spouse Joint and Survivor Annuity by delivering to the Committee, during the election period described below, his written election to have his benefits paid under the form described in Section 5.01 or under an optional form described in Section 5.051 or Article 8. The election period with respect to the life annuity form described in Section 5.01 and the Spouse Joint and Survivor Annuity shall be a ninety (90) day period ending on the

Participant's benefit commencement date. The Participant may revoke such election by filing a written revocation with the Committee at any time during such election period. The election by a married Participant of an optional form described under Section 5.051 or Article 8 shall be made in accordance with the provisions of Section 5.024, and Section 5.051 or Article 8, whichever is applicable.

5.023 INFORMATION FURNISHED TO PARTICIPANT

No fewer than 30 days and no more than 90 days before a Participant's benefit commencement date, the Committee shall furnish each Participant with general information on the Spouse Joint and Survivor Annuity. Such

general information shall be in writing and shall include:

- (a) The terms and conditions of the Spouse Joint and Survivor Annuity;
- (b) The Participant's right to elect, and the effect of electing, to waive the Spouse Joint and Survivor Annuity;
- (c) The rights of the spouse;
- (d) The right to revoke, and the effect of revoking, an election to waive the Spouse Joint and Survivor Annuity;
- (e) The eligibility conditions and material features of the optional forms of payment available under the Plan;
- (f) The relative values of the optional forms of payment available under the Plan; and
- (g) Such other information as may be required under applicable regulations.

The Committee shall also furnish the Participant, upon his written request made within sixty (60) days following the date he is furnished such general information, additional information explaining the financial effect upon his pension (in terms of dollars per pension payment) of making such election. Such additional information shall be furnished to the

Participant within thirty (30) days following the date the Participant's written request is received by the Committee.

The notice described above is not required if the Actuarial Equivalent value of the Participant's nonforfeitable accrued benefit is less than or equal to \$3,500 (\$5,000 commencing October 1, 2001) on the Participant's benefit commencement date.

The benefit commencement date for a distribution in a form other than a Spouse Joint and Survivor Annuity may be less than 30 days after receipt of the written explanation described in the preceding paragraph provided: (a) the Participant has been provided with information that clearly indicates that the Participant has at least 30 days to consider whether to waive the Spouse Joint and Survivor Annuity and elect (with spousal consent) to a form of distribution other than a Spouse Joint and Survivor Annuity; (b) the Participant is permitted to revoke any affirmative distribution election at least until the benefit commencement date or, if later, at any time prior to the expiration of the 7-day period that begins the day after the explanation of the Spouse Joint and Survivor Annuity is provided to the Participant' and (c) the benefit commencement date is a date after the date the written explanation was provided to the Participant.

5.024 SPOUSAL CONSENT REQUIRED

Notwithstanding anything herein to the contrary, the election by a married Participant of an optional form described in Article 8 or Section 5.051 or the normal form described in Section 5.01 shall not take effect unless:

- (a) his surviving spouse consents in writing to such an election, such election specifies the Beneficiary and the form of benefit payment elected by the Participant in lieu of the Spouse Joint and Survivor Annuity, and such consent acknowledges the effect of such election and is witnessed by a Plan representative or a notary public; or
- (b) it is established to the satisfaction of the Committee that the consent required under (a) above may not be obtained because there is no spouse or the spouse cannot be located, or the Participant can show by court order that he is legally separated from his spouse or has been abandoned by the spouse within the meaning of local law, or due to other circumstances as the Secretary of the Treasury may prescribe.

Any consent by a spouse under (a) above, or a determination by the Committee with respect to such spouse under (b) above, shall be effective only with respect to such spouse.

5.03 AMOUNT OF NORMAL RETIREMENT BENEFIT

- (a) Subject to the provisions of Section 5.031 and 5.04, the annual Normal Retirement Benefit payable to a Participant who retired under the Plan on or after January 1, 1985 and on or after his Normal Retirement Date but prior to January 1, 1986 shall be an amount equal to forty percent (40%) of his Final Average Compensation less fifty percent (50%) of his Social Security Benefit, multiplied by a fraction (not to exceed one) the numerator of which is his years (and fractions thereof) of his Benefit Service and the denominator of which is 30.
- (b) Subject to the provisions of Section 5.031 and 5.04, the annual Normal Retirement Benefit payable to a Participant who retired under the Plan on or after January 1, 1986 and on or after his Normal Retirement Date but prior to January 1, 1989 shall be an amount equal to forty-five percent (45%) of his Final Average Compensation less fifty percent (50%) of his Social Security Benefit, multiplied by a fraction not to exceed one) the numerator of which is his years (and fractions thereof) of his Benefit Service and the denominator of which is 25.
- (c) Subject to the provisions of paragraphs (d) and (e) and Sections 5.031 and 5.04, the annual Normal Retirement Benefit payable to a Participant who retires under the Plan on or after January 1, 1989 and on or after his Normal Retirement Date shall be an amount equal to the greater of (i), (ii), (iii) or (iv) below:
 - (i) 1.67% times the Participant's Final Average Compensation less the Maximum Offset Allowance, the result of which is multiplied by his years of Benefit Service (maximum of 25 years);
 - (ii) 1.00% times the Participant's Final Average Compensation multiplied by his years of Benefit Service (maximum of 25 years);

- (iii) the Participant's accrued benefit as of March 15, 1990 (or December 31, 1988 if the Participant is a highly compensated employee as defined in Section 414(q)(1)(A) or (B) of the Code);
 - (iv) the Participant's accrued benefit under the Plan determined as of the December 31 preceding the date of determination.
- (d) For Participants Who Participated in the Spence Plan on December 31, 1991
 - (i) Notwithstanding the foregoing provisions of this Section, with respect to a Participant who participated in the Spence Plan on December 31, 1991 and who retires under this Plan on or after January 1, 1994 and on or after his annual Normal Retirement Date, his annual Normal Retirement Benefit shall equal the sum of (A) and (B) but in no event

less than (C) where:

(A) is equal to the sum of (1), (2), (3), and (4) below:

(1) $\frac{5}{8}$ of 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned prior to June 1, 1975 under the Spence Plan.

(2) $\frac{3}{4}$ of 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned on and after June 1, 1975 through May 31, 1980 under the Spence Plan.

(3) $\frac{7}{8}$ of 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned on and after June 1, 1980 through May 31, 1985 under the Spence Plan.

(4) 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned on and after June 1, 1985 through December 31, 1986 under the Spence Plan.

The amount of the benefit calculated in accordance with this paragraph (d)(i)(A) shall be actuarially increased to reflect the change in the normal form of benefit payment from a 5 year certain and continuous annuity to a single life annuity.

(B) is equal to the greater of (1) or (2) below:

(1) 1.67% times the Participant's Final Average Compensation less the Maximum Offset Allowance, the result of which is multiplied by his years of Benefit Service earned under the Spence Plan on or after January 1, 1987 but prior to January 1, 1992, and Benefit Service earned under the Plan on or after January 1, 1992 (maximum of 25 years).

(2) 1.00% of the Participant's Final Average Compensation multiplied by his years of benefit service earned under the Spence Plan on and after January 1, 1987 but prior to January 1, 1992 and his years of Benefit Service earned on and after January 1, 1992 under the Plan (up to a maximum of 25 years).

Notwithstanding the foregoing, a Participant who is credited with a 1,000 Hours of Service under the Spence Plan during the twelve-month period beginning on June 1, 1985 and ending on May 31, 1986 and during the twelve-month period beginning on January 1, 1986 and ending on December 31, 1986 shall be credited with 2 years of Benefit Service for purposes of Section 5.03(d)(i)(A)(4) to reflect the change in the Spence Plan's plan year to a calendar year.

(C) is equal to the greater of (1) or (2) below:

(1) the Actuarial Equivalent of the Participant's Accumulated Contributions Account.

(2) the Participant's accrued benefit determined under the Spence Plan as of December 31, 1991.

(e) For Participants Who Participated in the Henry Pratt Plan on September 30, 1993

Notwithstanding the foregoing provisions of this Section, with respect to a Participant who participated in the Henry Pratt Plan on September 30, 1993 and who retires under this Plan on or after September 30, 1993 and on or after his annual Normal Retirement Date, his Normal Retirement Benefit shall be an amount based on a maximum of 25 years of "Combined Total Benefit Service" (as defined below) and equal to the sum of (i) and (ii), where:

(i) is the Participant's accrued benefit earned under the Henry Pratt Plan as of September 30, 1993 multiplied by a fraction, the numerator of which equals the Participant's Final Average Compensation determined as of his retirement date and the denominator of which equals the Participant's Final Average Compensation determined as of December 31, 1993.

(ii) is the Participant's accrued benefit, if any, determined in accordance with Section 5.03(c) for years of Benefit Service earned on or after October 1, 1993 under the Plan.

For purposes of determining a Participant's accrued benefit under paragraph (e)(i) above, the following shall apply:

(A) If the Participant was hired by the Henry Pratt Company on or before September 7, 1988, he shall be credited with service under the Henry Pratt Plan beginning on September 7, 1988 and ending on September 30, 1993 and such service shall be counted in years and completed months;

(B) If the Participant was hired by the Henry Pratt Company after September 7, 1988, he shall be credited with service under the Henry Pratt Plan beginning on his date of employment and ending on September 30, 1993 and such service shall be counted in years and completed months.

For purposes of this Section 5.03(e), "Combined Total Benefit Service" means service earned under the Henry Pratt Plan and Benefit Service earned under the Plan. In the event a Participant's Combined Total Benefit Service exceeds twenty-five (25) years on his date of retirement with the Employer, the Participant's Normal Retirement Benefit shall be determined by decreasing his years of service earned under the Henry Pratt Plan by the number of years which exceeds twenty-five (25) and the benefit calculated under paragraph (e)(i) above shall be recalculated using the Participant's accrued benefit as of September 30, 1993.

(f) This subsection (f) shall apply to any Participant who had his retirement benefit determined under Part B of the Plan and who after January 1, 1997, transferred to Regtrol Inc. (hereinafter referred to as a "Transferred Jameco Participant").

A Transferred Jameco Participant's Normal Retirement Benefit shall be an amount based on a maximum of 25 years of "Combined Total Benefit Service" and equal to the sum of (i) and (ii) where:

(i) is the Transferred Jameco Participant's accrued benefit based on the formula under Part B of the Plan in effect as of the transfer date and determined based upon (1) his years of Service under Part B of the Plan as of the transfer date and (2) his Average Monthly Compensation under Section 1.05 of Part B and his Covered Compensation under Section 1.16 of Part B as of his retirement or termination date.

(ii) is the Transferred Jameco Participant's accrued benefit, if any, determined in accordance with Section 5.03(c) for years of Benefit Service earned on or after transfer date.

For purposes of this Section 5.03(f), "Combined Total Benefit Service" means benefit service earned under Part B of this Plan and Benefit Service earned under subsection (ii) above. In the event a Participant's Combined Total Benefit Service exceeds twenty-five (25) on his date of retirement or termination of employment with the Employer, the Transferred Jameco Participant's retirement benefit shall be determined by decreasing his years of service under subsection (i) by the

number of years of service which exceeds twenty-five and substituting such benefit service with years of Benefit Service under subsection (ii).

However, in no event shall a Transferred Jameco Participant's accrued benefit be less than his accrued benefit based upon his years of benefit Service as of his transfer date as calculated under Part B.

5.031 MINIMUM BENEFIT FOR PARTICIPANTS ON JANUARY 1, 1979

The annual normal retirement benefit of a Participant who was an Employee on January 1, 1979 shall in no event be less than an amount equal to the sum of (a) and (b) below for each year of Benefit Service:

- (a) 1% of that portion of his Compensation in each calendar year subject to taxes under the Federal Insurance Contributions Act, as adjusted by regulation each year, plus
- (b) 2% of that portion of his Compensation in each calendar year in excess of that amount subject to taxes under the Federal Insurance Contributions Act, as adjusted by regulation each year.

5.032 ACCRUED BENEFIT

To determine a Participant's accrued benefit under Section 5.03(a) and (b) at any time prior to his Normal Retirement Date, there shall first be determined the amount of Normal Retirement Benefit that the Participant would have received if he had remained in the employ of the Employer to his Normal Retirement Date but based on his Final Average Compensation and Social Security Benefit as of the date such benefit is being determined. Such amount shall be multiplied by a fraction in which the numerator is the number of years of Benefit Service (including fractions thereof) that the Participant has completed and the denominator is the number of years of Benefit Service (including fractions thereof) that the Participant would have completed if he had remained in the employ of the Employer to his Normal Retirement Date.

A Participant's accrued benefit under Section 5.03(c), (d) and (e) is the benefit as defined under Section 5.03(c), (d) or (e) based on Final Average Compensation and Benefit Service as of the date the accrued benefit is being determined.

Notwithstanding the above, in the case of a Participant whose Compensation for a Plan Year beginning prior to January 1, 1994 exceeded \$150,000, such Participant's Accrued Benefit shall not be less than an amount equal to the sum of his or her Accrued Benefit determined as of December 31, 1993 plus an amount equal to the Participant's Accrued Benefit determined in accordance with the provisions of this Section 5.032 based on Years of Benefit Service earned by the Participant after December 31, 1993.

5.04 MAXIMUM RETIREMENT BENEFITS

- (a) For Plan Years beginning after 1986, the actual or projected annual amount of a Participant's benefit payable within a

Limitation Year shall not exceed the lesser of (i) and (ii) below:

(i) \$90,000, or

(ii) 100% of the Participant's average annual Section 415 Compensation (as defined in paragraph (c) below) for the three consecutive calendar years (or, if his period of employment is less than three years, for his entire period of employment) as a Participant during which he received the greatest aggregate Section 415 Compensation;

(b) In no event shall the limitations in paragraph (a) above be less than \$10,000 if the Participant has not at any time participated in a defined contribution plan maintained by the Employer or an Affiliated Employer.

(c) The term "Section 415 Compensation" means wages, salaries, and fees for professional services and other amounts received from the Employer and all Affiliated Employers during the Limitation Year (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer, to the extent such amounts are includable in gross income, including, but not limited to, overtime pay, tips, bonuses, commissions to

paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, fringe benefits, reimbursements, and expense allowances, and excluding the following:

- (i) amounts contributed by the Employer or Affiliated Employer on behalf of the Employee pursuant to a salary deferral agreement under this Plan or any other cash or deferred arrangement described in Section 401(k) of the Code, to any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code, or to any other plan of deferred compensation, and which are not includable in the Employee's gross income for the taxable year in which contributed, or any distributions from a plan of deferred compensation;
- (ii) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Employee either becomes free transferable or is no longer subject to a substantial risk of forfeiture;
- (iii) amounts realized with respect to the sale, exchange, or other disposition of stock acquired under a qualified stock option; and
- (iv) other amounts which receive special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity described in Section 403(b) of the Code (whether or not the amounts are excludable from the Employee's gross income).

For purposes of applying the limitations of this Section, the term "Section 415 Compensation" means the compensation actually paid or includable in the Employee's gross income for the Limitation Year.

Effective January 1, 1998, Section 415 Compensation earnings shall include (i) any elective deferrals as defined in Code Section 402(g)(3), and (ii) any amount which is contributed or deferred by the Employer at the election of the Employee and which is not includable in the gross income of the Employee by reason of Code Section 125 or 457. Effective January 1, 2001, Section 415 Compensation shall include any amounts deferred under Section 132(f)(4) of the Code.

(d) The dollar limitation described in paragraph (a)(i) above shall be increased by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code. Such adjustment factor shall be applied to all Participants, including Participants and Beneficiaries receiving benefits from the Plan and to such items as the Secretary shall prescribe.

(e) If the benefit payable to a Participant commences prior to the Participant's Social Security Retirement Age, but on or after the date he attains age 62, the maximum annual amount determined under paragraph (a)(i) above shall be reduced as follows:

(i) if the Participant's Social Security Retirement age is 65, by 5/9ths of 1% for each month by which the commencement of payment of his benefits precedes the month in which he attains age 65; or

(ii) if the Participant's Social Security Retirement age is 66 or 67, by 5/9ths of 1% for each of the first 36 months and 5/12ths of 1% for each additional month by which the commencement of payment of his benefits precedes the month in which he attains his Social Security Retirement Age.

If the benefit payable to a Participant commences before age 62, the maximum annual amount determined under paragraph (a)(i) above shall be reduced in accordance with applicable regulations, so that it is the Actuarial Equivalent of such amount as applied to a benefit beginning at age 62. For purposes of this paragraph, the Actuarial Equivalent shall be determined using the assumptions specified in Section 1.02(b).

(f) If the payment of benefits to a Participant commences after his Social Security Retirement Age, the maximum annual amount determined under paragraph (a)(i) above shall be increased so that it is the Actuarial Equivalent of a \$90,000 benefit multiplied by the adjustment factor specified in paragraph (e) above, and payable in the normal form at the Participant's Social Security Retirement Age. For purposes of this paragraph, the Actuarial Equivalent shall be determined using the assumptions specified in Section 1.02(b).

(g) The annual benefit is a retirement benefit under the Plan which is payable annually in the form of a single life annuity. If the benefit payable to a Participant is not in the form of a single life annuity nor in the form of a Spouse Joint and Survivor Annuity, then the maximum annual amount determined under paragraph

(a) above shall be reduced in accordance with the applicable regulations so that it is the Actuarial Equivalent of such amount as payable in the normal form. The interest rate and mortality assumptions used to determine the Actuarial Equivalent will be the rates specified in Section 1.02 (b).

(h) If the Participant has completed less than 10 years of Plan participation, the maximum annual amount determined under paragraph (a)(i) above shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Plan participation (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.

(i) If the Participant has completed less than 10 years of Service, the maximum amount determined under Section paragraph (a)(ii) above (without regard to paragraph (a)(i) above) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Service (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.

(j) In no event shall the provisions of paragraph (h) or paragraph (i) above reduce the limitations in paragraph (a) to an amount less than one-tenth of such limitations, determined without regard to the provisions of paragraph (h) and paragraph (i).

(k) If a Participant is, or has ever been, covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's annual benefits from all such plans may not exceed the maximum permissible amount.

(l) TRANSITIONAL RULE. Notwithstanding the foregoing provisions of this Section 5.04, the maximum limitation on annual benefits with respect to any person who was a Participant prior to January 1, 1983 and whose annual benefit (determined without regard to any changes in the plan after July 1, 1982 and without regard to cost-of-living adjustments, if any, occurring after July 1, 1982) as of December 31, 1982, exceeds the limitations set forth in this Section 5.04, shall be such Participant's annual benefit as of December 31, 1982; provided that such Participant's annual benefit did not exceed the maximum limitation thereon as of December 31, 1982.

5.041 LIMITATION APPLICABLE TO DEFINED CONTRIBUTION PLAN PARTICIPANTS

(a) If a Participant is also a participant in any defined contribution plan maintained by the Employer or an Affiliated Employer, the sum of the defined benefit plan fraction and the defined contribution plan fraction for any year shall not exceed 1.0 as provided in Section 415(e) of the Code and any regulations issued thereunder.

(b) The DEFINED BENEFIT FRACTION for any Limitation Year is a fraction, the numerator of which is the sum of the Participant's projected annual benefits under all defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of 1.25 times the dollar limit determined under Sections 415(b) and 415(d) of the Code and adjusted in accordance with Section 5.04(h) and (i) for the Limitation Year, or 1.4 times 100% of the Participant's highest average annual Section 415 Compensation (including any adjustments under Section 415(b) of the Code) for any three consecutive years.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986 in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 1.25 times the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate

satisfied the requirements of Section 415 of the Code for all Limitation Years beginning before January 1, 1987.

(c) The DEFINED CONTRIBUTION PLAN FRACTION for any Limitation Year is a fraction, the numerator of which is the sum of the annual additions to the Participant's accounts under all defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years (including the annual additions attributable to the Participant's nondeductible employee contributions to all defined benefit plans, whether or not terminated, maintained by the Employer, and the annual additions attributable to all welfare benefit funds, as defined in Section 419(e) of the Code, and individual medical accounts, as defined in Section 415(l)(2) of the Code, maintained by the Employer), and the denominator of which is the sum of the maximum aggregate amounts for the current and all prior Limitation Years of service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer). The maximum aggregate amount in any Limitation Year is the lesser of 1.25 times the dollar limitation determined under Sections 415(b) and 415(d) of the Code in effect under Section 415(c)(1)(A) of the Code, or 35% of the Participant's Section 415 Compensation (as defined in Section 5.04(c)) for such Limitation Year.

For purposes of calculating the numerator in the defined contribution plan fraction, a Participant's after-tax payroll deduction contributions made before 1987, if any, shall be taken into account to the extent such contributions exceed the lesser of:

- (i) 6% of the Participant's Section 415 Compensation (as defined in Section 5.04(c)) for the Limitation Year, or
- (ii) 50% of the amount of such payroll deduction contributions for the Limitation Year.

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the

adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0 times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

(d) For the purpose of determining the denominators in the preceding two fractions, the maximum benefit allowable and the maximum annual additions shall be deemed to be equal to the lesser of:

(i) 140% of the percentage limits, or

(ii) 125% of the dollar limits provided in Sections 415(b) and 415(c) of the Code for each such year.

(e) Any adjustment necessary to comply with the limitations of this section shall be made in the Participant's benefit payable under the relevant defined benefit plan; but under no circumstances may the accrued benefit of a Participant in a defined benefit plan decrease as a result of a Plan amendment to change the combined plan limits.

(f) Effective January 1, 2000, the provisions of this Section 5.041

shall no longer be effective.

5.042 AFFILIATED EMPLOYERS

For purposes of Sections 5.04 and 5.041, the Employer and all Affiliated Employers shall be considered one employer, and the limitations shall be applicable to the total benefits received from the Employer and all Affiliated Employers. Further, in determining what is an Affiliated Employer for the purposes of these Sections, the phrase "more than 50%" shall be substituted for "at least 80%" each place it appears in Section 1563(a)(1) of the Code.

5.05 EARLY RETIREMENT BENEFIT

The Early Retirement Benefit of a Participant who elects to retire on an Early Retirement Date (as defined in Section 4.02) on or after January 1, 1985 shall be the benefit computed in (a) or (b) below, as elected by the Participant:

- (a) a benefit commencing on his Normal Retirement Date (as defined in Section 4.01) in an amount equal to his accrued Normal Retirement Benefit determined in accordance with the provisions of Section 5.03 or 5.031, whichever is applicable, and Section 5.032;
- (b) a reduced benefit commencing on his Early Retirement Date or the first day of any month thereafter but prior to his Normal Retirement Date, as elected by the Participant, which benefit shall be computed as in (a) above, reduced by 5/9 of 1% for each of the first sixty months by which commencement of benefits precedes his Normal Retirement Date, and by 5/18 of 1% for each month thereafter, if any, by which commencement of benefits precedes his Normal Retirement Date.

Notwithstanding the foregoing provisions of this Section 5.05, with respect to a Participant who on September 30, 1993 was participating in the Henry Pratt Plan, his Early Retirement Benefit shall not be less than the benefit he could have received if he retired under the early retirement provisions of the Henry Pratt Plan on September 30, 1993.

5.051 SOCIAL SECURITY OPTION

A Participant who is entitled to receive an Early Retirement Benefit and has elected to have such benefit commence prior to the date he is entitled to receive benefits under Title II of the Social Security Act, may elect to receive a Social Security Option under which he will receive a larger monthly benefit prior to the date he is first entitled to receive benefits under Title II of the Social Security Act and a smaller benefit after he is first entitled to receive benefits under Title II of the Social Security Act so that, to the extent possible, the Participant will receive a level monthly income when his payments under the Plan and his income under Title II of the Social Security Act are taken in to account; provided, however, that his payments under the Social Security Option will be the

Actuarial Equivalent of the Early Retirement Benefit he would have received if he had not elected such an option.

If a Participant elects a benefit under this Section, no benefits will be payable to anyone upon his death.

5.06 DEFERRED RETIREMENT BENEFIT

(a) RETIREMENT PRIOR TO AGE 70 1/2

Each Participant who continues in the employ of the Employer or an Affiliated Employer after attaining his Normal Retirement Age and retires prior to age 70 1/2 shall be entitled upon actual retirement to receive a monthly Deferred Retirement Benefit. The Deferred Retirement Benefit payable under this paragraph (a) shall be determined in accordance with Section 5.03 or 5.031, whichever is applicable, based on the Participant's years of Benefit Service (including fractions thereof) as of his retirement date, and the rate of benefit in effect under the Plan on his retirement date.

(b) COMMENCEMENT OF BENEFITS WHILE ACTIVELY EMPLOYED

- (b) Prior to January 1, 1997, the Deferred Retirement Benefit payable to a Participant who attains age 70 1/2 and who continues to be an Employee shall be equal to the Participant's accrued benefit determined as of the last day of the Plan Year in which the Participant attains age 70 1/2. The Deferred Retirement Benefit payable under this paragraph (b) shall be determined in accordance with Section 5.03 or 5.031, whichever is applicable, and shall be payable in the form of a single life annuity. The Deferred Retirement Benefit shall commence no later than the January 1 immediately following the Plan Year in which the Participant attains age 70 1/2.

The monthly benefit of a Participant who has begun receiving benefits and who continues to be an Employee after his attainment of age 70 1/2 shall be adjusted, effective on the January 1 following the Plan Year in which the Participant's benefit commenced and on each succeeding January 1 prior to the Participant's

Deferred Retirement Date, to reflect the effect of changes in the Participant's accrued benefit since the previous January 1. The final adjustment shall be made as of the Participant's Deferred Retirement Date. Adjustments required by this paragraph shall include a reduction equal to the Actuarial Equivalent of any benefit payments already made with respect to the Participant. In no event, however, will the benefit payable to the Participant be reduced as a result of this paragraph. Furthermore, the operation of this paragraph will not affect the form of benefit payment previously elected by the Participant.

Any Participant, other than a 5% owner as defined in Code Section 416(i), who attains age 70 1/2 after December 31, 1996 but before January 1, 2002 shall have the option to commence receiving retirement benefits at any time commencing on or after the January 1 following the Plan Year in which such Participant attains age 70 1/2. Any Participant, other than a 5% owner as defined in Code Section 416(i), who attains age 70 1/2 on or after January 1, 2002, shall commence receiving retirement benefits no later than the January 1 of the calendar year following the calendar year in which he attains age 70 1/2 or the calendar year in which he retires, whichever is later. Participants who are 5% owners must continue to commence receiving benefits on the January 1 following the Plan Year in which they attained age 70 1/2.

Effective January 1, 1997, a Participant's Deferred Retirement Benefit shall be equal to the greater of (i) the Actuarial Equivalent of his or her Deferred Retirement Benefit determined as of April 1 of the calendar year following the calendar year in which the Participant attained age 70 1/2, or (ii) the Participant's Deferred Retirement Benefit determined as of his or her Deferred Retirement Date.

Upon such Participant's actual Deferred Retirement Date, he shall then be eligible to make the election as described in Section 5.022.

5.07 SUSPENSION OF BENEFIT DISTRIBUTIONS

(a) CONDITIONS FOR SUSPENSION

If any Participant is reemployed by the Employer or an Affiliated Employer on or after his benefit commencement date and before age 70 1/2, or if any Participant continues in employment with the Employer or an Affiliated Employer after his Normal Retirement Date (as defined in Section 4.01), the benefit payable for a calendar month will be permanently withheld if the Participant completes 40 or more Hours of Service in the calendar month or in the four or five week payroll period ending in the calendar month.

The benefit permanently withheld will be the actual amount scheduled to be paid for the calendar month in which the conditions for suspension are met.

(b) REDETERMINATION OF BENEFITS

Upon the subsequent termination of employment of a Participant who was eligible to begin receiving payments under the Plan on his prior termination of employment date (whether or not such benefit payments had actually commenced), the Participant's retirement benefit shall be redetermined in accordance with the provisions of this Plan applicable to him as of his subsequent termination of employment date, as if no prior benefit payments had been made. His retirement benefit, as so redetermined, shall then be reduced by (i) the Actuarial Equivalent of the benefit payments, if any, previously made to such Participant prior to his Normal Retirement Date or (ii) in the case of a lump sum payment, the Actuarial Equivalent of the payment other than the portion of the payment attributable to the period (if any) after the Participant's Normal Retirement Date and before his reemployment commencement date. The form of payment of any retirement benefit to which he may thereafter become entitled shall be determined in accordance with the provisions of Article 5 at the time he subsequently retires without regard to the form in which his benefit had previously been paid.

The Participant's retirement benefit as so redetermined shall not be less than his retirement benefit prior to the suspension of payments.

(c) RESUMPTION OF BENEFITS

In the case of a Participant who was receiving benefit payments prior to reemployment, payment of such benefits shall resume no later than the first day of the third calendar month following the month in which the Participant ceases to satisfy the conditions for suspension described in paragraph (a) above.

If the period of suspension is less than three months, the Participant's benefit shall continue to be paid in the same form of payment as was in effect before the suspension.

The amount of the Participant's benefit shall be redetermined, taking into account increased service and any benefits paid before suspension, and shall not be less than the amount of benefit the Participant was receiving prior to suspension.

(d) NOTICE OF SUSPENSION

If a Participant continues to be employed (or is reemployed) by the Employer or an Affiliated Employer after his Normal Retirement Date (as defined in Section 4.01) and the commencement of his benefit payments is delayed (or, in the case of reemployment, suspended) in accordance with the provisions of paragraph (a) above, the Committee shall give written notice to such Participant as required under Department of Labor Regulations 2530.203-3(b)(4) no later than the end of the first calendar month or payroll period in which the payment of benefits would have commenced if the Participant had not remained in or returned to employment.

5.08 RETIREMENT PRIOR TO JANUARY 1, 1985

Except as specified otherwise here-in, the monthly retirement benefit of a Participant who retired from the Service of the Employer prior to January 1, 1985 shall be determined in accordance with the applicable provisions of the Prior Plan as in effect on the date of his retirement.

5.09 PARTICIPANTS WHO ATTAINED NORMAL RETIREMENT AGE OR WHO RETIRED PRIOR TO JANUARY 1, 1986

Commencing January 1, 1986, the monthly retirement benefit of an active Participant who attained Normal Retirement Age prior to January 1, 1986 or of a Retired Participant who retired prior to January 1, 1986 shall be increased by 2.5% for each year between the date such active Participant attained Normal Retirement Age or the date such Retired Participant retired and the anniversary of such date which occurs in 1986; provided that each such Participant or Retired Participant shall be entitled to a monthly benefit increase of at least \$10.00.

5.10 DISABILITY RETIREMENT BENEFITS

- (a) In the event a Participant becomes disabled prior to October 1, 2001 while employed with the Employer so that he is receiving disability benefits under the Employer's long term disability program and is eligible for and is receiving disability benefits under Title II of the Social Security Act or becomes disabled on or after October 1, 2001 while employed with the Employer so that he is eligible for and is receiving disability benefits under Title II of the Social Security Act, such Participant shall continue to be credited with years of Service for vesting and years of Benefit Service for the period he remains disabled and such crediting shall cease upon the earlier of the Participant's recovery from disability, death, election of Early Retirement or Normal Retirement Date. During the period of disability such Participant shall be credited with Compensation equal to the greater of his Compensation credited in the Plan Year he becomes disabled or the Compensation credited for the immediately preceding Plan Year. In addition, such disabled Participant's Maximum Offset Allowance shall be determined as of the date he becomes disabled. If a Participant's disability continues until his Normal Retirement Date, his Normal Retirement Benefit shall commence as of the date elected by the Participant in accordance with the normal form of benefit described as Section 5.01 or 5.02, whichever is applicable, or the optional retirement benefit, if elected by the Participant, as set forth in Article 5.
- (b) A Participant who on December 31, 1991 participated in the Pension Plan for Salaried Employees of Spence Engineering Company, Inc. and who met the

requirements for a monthly disability benefit thereunder shall continue to receive the disability benefit under this Plan.

The monthly disability benefit will terminate with the last payment due preceding the earliest of the following to occur:

- (i) the tenth day after the Trustee receives notice from the Employer that the Participant has ceased to be entitled to disability benefits under the Social Security Act;
- (ii) the date of the Participant's death; or
- (iii) the Participant's Normal Retirement Date or, if elected, the Participant's Early Retirement Date.

ARTICLE 6 - TERMINATION OF SERVICE

6.01 REQUIREMENTS FOR VESTED BENEFITS

There are no benefits payable under the Plan if a Participant's employment terminated prior to the date he is entitled to retire and receive a benefit under the Plan, except as provided in Section 7.03(d), 8.05, and this Article 6.

6.02 VESTED BENEFITS

- (a) A Participant whose employment terminates on or after January 1, 1989 and who ceases to be an Employee prior to Normal Retirement Age for any reason except death or retirement under the Plan shall be entitled to a deferred vested benefit commencing on his Normal Retirement Date (as defined in Section 4.01) equal to his accrued Normal Retirement Benefit determined in accordance with the provisions of Section 6.021 multiplied by his vesting percentage

in accordance with the following schedule:

YEARS OF SERVICE	VESTING PERCENTAGE
Less than 5 years	0%
5 years or more	100%

- (b) A Participant shall be fully vested in his Accumulated Contribution Account, if any, at all times.

- (c) Effective September 4, 1996, a Participant who is an Employee of Henry Pratt Company or James Jones Company on September 4, 1996 shall be 100% vested and shall be entitled to a deferred vested benefit commencing on his Normal Retirement Date equal to his Accrued Normal Retirement Benefit determined in accordance with the provisions of Section 6.021(c).

6.021 COMPUTATION OF A VESTED BENEFIT

(a) The amount of a deferred vested benefit payable to a Terminated Participant under Section 6.02(a) shall be equal to his accrued benefit as determined under Section 5.032. Notwithstanding the foregoing, the amount of deferred vested benefit payable to a Terminated Participant who was an Employee on January 1, 1979 shall in no event be less than his accrued benefit determined in accordance with the provisions of Section 5.031.

(b) The amount of a deferred vested benefit payable to a Terminated Participant under Section 6.02(b) shall not be less than the Actuarial Equivalent of the balance in his Accumulated Contribution Account, if any.

6.022 EARLY COMMENCEMENT OF A VESTED BENEFIT

(a) A Terminated Participant entitled to a Vested Benefit under Section 6.02 may elect to have such benefit commence at any time after he is eligible to elect an Early Retirement Date pursuant to Section 4.02. In such case and subject to the provisions of paragraph (b) below, his benefit shall be computed as in Section 6.021, but shall be reduced by $\frac{5}{9}$ of 1% for each of the first sixty (60) months by which his benefit commencement date precedes his Normal Retirement Date, and by $\frac{5}{18}$ of 1% for each month thereafter, if any, by which his benefit commencement date precedes his Normal Retirement Date.

(b) The Vested Benefit of a Participant, who on September 30, 1993 was participating in the Henry Pratt Plan and who elects early commencement as described in paragraph (a) above, shall not be less than the benefit he could have received if he elected early commencement of his benefit under the vested retirement provisions of the Henry Pratt Plan on September 30, 1993.

ARTICLE 7 - DEATH OF PARTICIPANT

7.01 DEATH PRIOR TO RETIREMENT

There are no death benefits payable under the Plan in the event of the death of a Participant, Retired Participant or Terminated Participant prior to the commencement of his retirement benefits under the Plan, except as may be provided under the Surviving Spouse Benefit described in Section 7.02 or as may be provided under Section 7.04.

7.02 SURVIVING SPOUSE BENEFIT

Effective August 23, 1984, the spouse of a Participant or a Terminated Participant shall be eligible to receive a Surviving Spouse Benefit after the Participant's or Terminated Participant's death if the Participant or Terminated Participant has fulfilled the following requirements at the date of death:

- (a) He has been legally married to such spouse throughout the twelve-month period ending on the date of his death;
- (b) He has met the requirements for a Vested Benefit under Section 6.02;

(c) He has not attained Normal Retirement Age; and

(d) He has not commenced receiving benefits under the Plan.

7.03 AMOUNT OF SURVIVING SPOUSE BENEFIT

If a Participant or Terminated Participant dies after fulfilling all the requirements of Section 7.02, his spouse shall be entitled to a lifetime benefit under the Plan. If the surviving spouse of the Participant or Terminated Participant consents, such benefit shall commence on the first day of the month following the later of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02. If such surviving spouse does not consent to receive benefits as described above, benefits shall commence on the first day of any month

thereafter, as elected by the surviving spouse, but not later than the date the Participant or Terminated Participant would have attained age 65.

The Surviving Spouse Benefit shall be equal to (a), (b), (c) or (d) below:

- (a) If the Participant or Terminated Participant dies after meeting the requirements for Early Retirement as provided under Section 4.02, the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the Participant or Terminated Participant had retired on the date preceding his date of death and he had been entitled to a Spouse Joint and Survivor Annuity;
- (b) If the Participant or Terminated Participant dies before meeting the requirements for Early Retirement as provided under Section 4.02, but after meeting the requirements for a Vested Benefit under Section 6.02(a), the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the

Participant or Terminated Participant had:

- (i) terminated service on the date of his death;
 - (ii) survived to the earliest retirement age under Section 4.02;
 - (iii) retired at that time and was entitled to receive a Spouse Joint and Survivor Annuity; and
 - (iv) died on the day following attainment of the earliest retirement age; or
- (c) If the Participant's or Terminated Participant's surviving spouse elects a benefit commencement date other than the first day of the month following the date of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02, the Surviving Spouse Benefit under (a) or (b) above, whichever is applicable, shall be actuarially adjusted to reflect the actual date of benefit commencement.

(d) FOR PARTICIPANTS WHO PARTICIPATED IN THE SPENCE PLAN

If the Participant or Terminated Participant dies before meeting the requirements for Early Retirement as provided under Section 4.02 and before meeting the requirements for a Vested Benefit under Section 6.02(a), but after meeting the requirements for a Vested Benefit under Section 6.02(b), the Surviving Spouse Benefit shall be equal to the Actuarial Equivalent of the balance in the Participant's or Terminated Participant's Accumulated Contribution Account and shall be paid to the spouse as a life annuity.

7.04 DEATH AFTER COMMENCEMENT OF BENEFITS OR NORMAL RETIREMENT AGE

There are no death benefits payable under the Plan upon the death of a Participant on or after his Normal Retirement Age or after a Participant has commenced receiving benefits under the Plan, except as follows:

- (a) If a Participant is receiving a Spouse Joint and Survivor Annuity as described in Section 5.02, any benefits becoming due will be paid in accordance with the terms of such Spouse Joint and Survivor Annuity;
- (b) If a Participant has elected an optional benefit under Article 8, any benefits becoming due will be paid in accordance with the terms of such option;
- (c) If a Participant dies after attaining his Normal Retirement Age but before his Deferred Retirement Date, the Spouse Joint and Survivor Annuity as described in Section 5.02 shall be deemed to be in effect on behalf of such Participant, provided he has not made an election under Section 5.022 to receive his benefits under another form of payment.

ARTICLE 8 - OPTIONAL FORMS OF BENEFIT

8.01 TIME FOR ELECTION

Subject to the restrictions set forth in Section 8.08, in lieu of receiving the life annuity referred to in Section 5.01 or the Spouse Joint and Survivor Annuity referred to in Section 5.02, a Participant may elect, by written application filed with the Committee, to have his retirement benefit paid under one of the forms of benefit set forth in this Article 8, provided that such election is made prior to actual retirement under the Plan and in accordance with the procedures set forth in Section 5.024 (if such Participant is married) and in this Article 8. Neither Section 5.01 nor Section 5.02 shall apply if an effective election is made under this Article; provided, however, that a married Participant may, at any time during the election period established by the Committee under Section 5.022, rescind his election of an option under this Article 8 and receive his retirement benefit in the form of an annuity for life under Section 5.01 or a Spouse Joint and Survivor Annuity under Section 5.02 if he has met the requirements therefor.

8.02 CONTINGENT ANNUITANT OPTION

A Participant may elect an option in accordance with Section 5.02, under which option he will receive an actuarially reduced benefit during his lifetime after retirement and 100%, 66-2/3% or 50% of such reduced amount will be continued to a person designated by the Participant at the time of election of the option (and referred to as a Contingent Annuitant) for the duration of the Contingent Annuitant's lifetime.

8.03 TEN YEAR CERTAIN LIFE ANNUITY OPTION

A Participant may elect an option in accordance with Section 502, under which option he will receive an actuarially reduced benefit during his lifetime after retirement with a provision that if he dies after his Normal Retirement Age or after commencement of his benefit payments but prior to receiving one hundred twenty (120) monthly retirement payments, the balance of such one hundred twenty (120) monthly retirement payments shall be paid to the Participant's Beneficiary.

8.04 FIVE YEAR CERTAIN LIFE ANNUITY OPTION

A Participant who was a participant in the Spence Plan and who was employed by Spence Engineering Company, Inc. prior to January 1, 1987 may elect an option at least ninety days prior to his benefit commencement date, under which option he will receive an Actuarially Equivalent benefit during his lifetime after retirement with a provision that if he dies after his Normal Retirement Age or after commencement of his benefit payments but prior to receiving sixty (60) monthly retirement payments, the balance of such sixty (60) monthly retirement payments shall be paid to the Participant's Beneficiary.

8.05 REFUND OF ACCUMULATED CONTRIBUTION ACCOUNT

This Section shall apply only to a Participant who participated in the Spence Plan on December 31, 1991 and who made employee contributions to the Spence Plan prior to January 1, 1987.

(a) REFUND OF ACCUMULATED CONTRIBUTION ACCOUNT ON AND AFTER RETIREMENT OR OTHER TERMINATION OF EMPLOYMENT.

A Participant may elect to receive on or after the date of his retirement or other termination of employment and before his benefit commencement date, a refund of the balance, if any, in his Accumulated Contribution Account.

If a Participant elects a refund of his Accumulated Contribution Account under this Section 8.05(a), his Normal Retirement Benefit provided in Section 5.03 shall be reduced by the Actuarial Equivalent of his Accumulated Contribution Account and his Accumulated Contribution Account shall be reduced to zero.

Notwithstanding the foregoing provisions of this Section 8.05(a), if the Actuarial Equivalent value of a Participant's entire nonforfeitable benefit exceeds \$3,500 (\$5,000 commencing October 1, 2001), the Participant's spouse, if any, must consent to the Participant's election to withdraw the balance in his Accumulated Contribution Account. For this purpose, a spousal consent is valid only if made no earlier than 90 days before the date of

withdrawal, is effective when received by the Committee and must:

- (i) Be in writing on a form provided by the Committee;
- (ii) Acknowledge the effect of the consent; and
- (iii) Be witnessed by a notary public or Plan representative.

Any such consent will be valid only with respect of the spouse who signs the consent. Spousal consent is not required, however, if the Participant establishes to the satisfaction of the Committee that there is no Spouse, the Spouse cannot be located, or the Participant can show by court order that he is legally separated or has been abandoned by the spouse within the meaning of local law, or if otherwise permitted under applicable regulations.

If the spouse is legally incompetent to give consent, the spouse's legal guardian, who may be the Participant, may consent to the withdrawal.

(b) REFUND OF ACCUMULATED CONTRIBUTIONS UPON CESSATION OF BENEFIT PAYMENTS OR UPON DEATH

Notwithstanding any contrary provisions of the Plan, upon cessation of all benefit payments under the provisions of the Plan in respect of a Participant who has not received a refund of the balance of his Accumulated Contribution Account, if any, including payments to a spouse, Contingent Annuitant or Beneficiary, or upon the death of a Participant in respect of whom no benefits are payable, the excess, if any, of the balance of the Participant's Accumulated Contribution Account over the aggregate benefit payments made hereunder in respect of such Participant shall be paid to his Beneficiary in a single lump sum. A suspension of benefits under Section 5.07 shall not be deemed to be a cessation under this Section.

8.06 WHEN OPTION EFFECTIVE

If a Participant who elects an option under this Article 8 dies prior to Normal Retirement Age or prior to the date his benefits commence, if earlier, the election shall be void and no benefit will be paid under the option. If the Participant's Contingent Annuitant, or Beneficiary if applicable, dies prior to the commencement of retirement benefits to the Participant and prior to the Participant's Normal Retirement Age, the Participant may either (a) designate another Contingent Annuitant, or Beneficiary, if applicable, prior to his Normal Retirement Age, (b) receive the form of benefit at retirement which would have

been payable to him had the option not been elected, or (c) elect another optional form of benefit under Article 8. Notwithstanding the first sentence of this Section 8.06, if the Participant has elected a Deferred Retirement Date, and if the Participant dies after his Normal Retirement Date but before his Deferred Retirement Date, the Contingent Annuitant or Beneficiary, if applicable, shall receive the reduced amount of retirement benefit payable under the option. If the Participant has elected a Deferred Retirement Date, and if either the Contingent Annuitant or Beneficiary, if applicable, dies after the Participant's Normal Retirement Date but before his Deferred Retirement Date, the election shall be void and the Participant will receive the benefit which would have been payable to him had the option not been elected, unless another option is elected.

8.07 BENEFICIARY

A Participant who elects an option under Section 8.03 or 8.04 shall designate, on a form provided by the Committee, a Beneficiary to receive any death benefit which may become payable under the designated option. The Participant may change his designation of Beneficiary from time to time by written notice filed with the Committee. If no designated Beneficiary survives to receive all benefits which may become due under the Plan, any such benefits becoming due shall be paid to any one or more of the following classes of successive Beneficiaries surviving the Participant: the Participant's (a) spouse, (b) issue, (c) parents, (d) brothers and sisters, or (e) executors and administrators.

8.08 LIMITATION OF ELECTION OF OPTION

No option shall be effective under this Article if the anticipated effect would be to extend the period of payments beyond the joint life expectancy of the Participant and his Contingent Annuitant or Beneficiary; or would violate the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations, or any provision of future law that amends, supplements, or supersedes such provision.

8.09 SPOUSAL CONSENT REQUIREMENT

Notwithstanding anything herein contained to the contrary, the election by a married Participant of an optional form of benefit shall not take effect unless the requirements set forth in Section 5.024 have been satisfied.

ARTICLE 9 - CHANGE IN STATUS AND TRANSFER

9.01 CHANGE IN STATUS FROM ELIGIBLE EMPLOYEE TO NON-ELIGIBLE EMPLOYEE

If a Participant is included in this Plan for a part of his period of employment with the Employer or an Affiliated Employer and then loses his status as an Eligible Employee, as defined in this Plan, he will not accrue any further benefits under this Plan; however, all Service with the Employer or an Affiliated Employer will be taken into account in determining his eligibility rights to receive any benefits previously accrued under this Plan.

In the event an Employee loses his status as an Eligible Employee, his benefit shall be determined using his Final Average Compensation, Covered Compensation, and years of Benefit Service on the date he ceases to be an Eligible Employee. If the Employee's status again changes and he becomes an Eligible Employee and resumes participation under the Plan, his years of Benefit Service shall be aggregated and his benefit shall be determined using his Final Average compensation and Covered Compensation on the latest date he ceases to be an Eligible Employee.

9.02 CHANGE IN STATUS FROM NON-ELIGIBLE EMPLOYEE TO ELIGIBLE EMPLOYEE

If a Participant is included in this Plan after a period of Service with the Employer when he was not an Eligible Employee, as defined in this Plan, all his Service with the Employer or an Affiliated Employer will be counted only for purposes of determining his eligibility to participate in the Plan and his rights to receive benefits under this Plan.

9.021 NON-DUPLICATION OF BENEFITS

If benefits are payable on account of the same period of employment with the Employer or an Affiliated Employer, under this Plan and another qualified defined benefit plan toward which the Employer contributes (or has contributed), the benefits payable under this Plan on account of such period shall be reduced by the Actuarial Equivalent of any benefit payable to him under such other plan calculated in the same form and manner as is the benefit payable under this Plan on account of the same period of Service. However, if such other

Plan provides for a similar reduction of benefits, then this Section shall be disregarded with respect to an Eligible Employee whose most recent period of participation in this Plan is earlier than his most recent period of participation in such other plan.

9.03 TRANSFER IN EMPLOYMENT

For purposes of determining vested benefits and eligibility, a direct transfer in employment between the Employer and a wholly owned subsidiary of the Employer, whether or not it adopts the Plan, shall not be deemed to effect any break in Service as to the Eligible Employee or Participant so transferring, as long as he retains his status as an Eligible Employee with such subsidiary. His Benefit Service with such subsidiary prior to the date of its adoption of the Plan shall be counted for purposes of the Plan to the extent specified in the vote of the board of directors of such subsidiary adopting the Plan. The Eligible Employee or Participant shall not lose his right to any Benefit Service he had accrued with the Employer prior to the date of his transfer in employment to the subsidiary, provided that there shall be no duplication in benefits based on such Benefit Service.

9.031 EMPLOYMENT WITH AN AFFILIATED EMPLOYER

For purposes of determining a Participant's eligibility to participate in the Plan and his right to a Vested Benefit under Section 6.02, any employment with an Affiliated Employer shall be treated as Service with the Employer; such Service to be determined by the Committee in accordance with the Service provisions of Article 2 applied in a uniform, nondiscriminatory manner to all Participants and to be based on the employment records of the Affiliated Employer. In no event shall a person who has completed such Service enter the Plan prior to his employment with the Employer or accrue any benefits under the Plan in respect of such Service, except as provided in Section 9.03.

9.04 EMPLOYMENT WITH WATTS FLUIDAIR CO.

If a Participant was included in one of the Prior Plans and ceased to be an Employee, as defined in such Prior Plan, because prior to July 1, 1981 he entered employment with and became included in a pension plan of Watts Fluidair Co. (formerly known as Watts Fluid Power Co.), he will not accrue any further benefits under this Plan; however, all service earned with Watts Fluidair Co. will be taken into account in determining his eligibility rights to receive any benefits previously accrued under the Prior Plan. If a Participant who transferred from employment with Watts Regulator Co. to Watts Fluidair Co. prior to July 1, 1981 is included in this Plan after a period of employment with Watts Fluidair Co., all his service with Watts Fluidair Co. will be counted for purposes of determining his eligibility to participate in this Plan and his eligibility rights to receive benefits under this Plan, and will be counted for purposes of determining his Benefit Service hereunder. His accrued benefit as determined under Section 5.032 shall be reduced by the Actuarial Equivalent of the benefit payable to him under any Watts Fluidair Co. plan calculated in the same form and manner as the benefit payable under this Plan.

9.05 EMPLOYMENT WITH SPENCE ENGINEERING COMPANY, INC.

If an Employee transfers from Spence Engineering Company Inc. to Watts Regulator Co. prior to December 31, 1987, his total service with Spence Engineering Company, Inc. will be counted for purposes of determining his eligibility to participate in this Plan and his eligibility to receive benefits under this Plan, and will be counted for purposes of determining his Benefit Service hereunder.

ARTICLE 10 - ADMINISTRATION

10.01 ALLOCATION OF RESPONSIBILITY AMONG FIDUCIARIES FOR PLAN AND TRUST ADMINISTRATION

The Fiduciaries shall have only those powers, duties, responsibilities and obligations as are specifically given to them under this Plan or the Trust. Any power, duty, responsibility or obligation relating to the control, management, or administration of the Plan or Trust Fund which is not specifically allocated to any Fiduciary, or with respect to which the allocation is in doubt, shall be deemed allocated to the Employer. In general, the Employer shall have the sole responsibility for making the contributions, as specified in Article 11 and subject to the provisions of Article 11, necessary to provide benefits under the Plan. The Sponsoring Employer by action of its Board shall have the sole authority to appoint and remove the Trustee and the members of the Committee and to amend or terminate, in whole or in part, this Plan and the Trust. The Committee shall have the sole responsibility for the administration of this Plan, as specifically described in this Plan and the Trust. The Trustee shall have the sole responsibility for the administration of the Trust and the management of the Trust assets, except as otherwise specifically provided in this Plan and the Trust.

The Sponsoring Employer, by written instrument filed with the records of the Plan, may designate fiduciary capacities and/or Fiduciaries other than those named herein. A Fiduciary may serve in more than one fiduciary capacity in respect to the Plan. A Fiduciary shall have the authority to delegate responsibilities, as provided above, and may employ one or more parties to render advice with regard to any responsibility he has under the Plan.

10.02 INDEMNIFICATION

The Employer shall indemnify each member (and former member) of the Committee and any other employee, officer or director (and former employee, officer or director) of the Employer against any claims, loss, damage, expense and liability (other than amounts paid in settlement not approved by the Employer) reasonably incurred by him in connection with any action or failure to act to which he may be party by reason of his membership on the Committee or performance of an authorized duty or responsibility for or on behalf of the Employer pursuant to the Plan or Trust unless the same is determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Employer

shall be made only to the extent (i) such expense or liability is not payable to or on behalf of such person under liability insurance coverage; and (ii) the Trust is precluded from assuming such expense or liability because of the operations of ERISA Section 410 or other applicable law. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

10.03 APPOINTMENT OF COMMITTEE

The Plan shall be administered by a Committee consisting of at least three (3) persons who shall be appointed by and serve at the pleasure of the Board. A person who is selected as a member of the Committee also may serve in one or more other fiduciary capacities with respect to the Plan and may be a Participant. The Board shall have the right to remove any member of the Committee at any time, and a member may resign at any time by written resignation to the Board. The Board may fill by appointment any vacancy in the membership of the Committee. All usual and reasonable expenses of the Committee incurred by them in the administration of the Plan and Trust, including but not limited to fees and expenses of professional advisors referred to above, shall be paid by the Trust Fund unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any such expenses. Any members of the Committee who are full-time employees of the Employer shall not receive compensation with respect to their services as a member of the Committee.

10.04 RECORDS AND REPORTS

The Committee shall exercise such authority and responsibility as it deems appropriate in order to comply with the Code, ERISA, and governmental regulations issued thereunder relating to records of Participants, Service and Benefit Service, benefits, notifications to Participants, annual registration with the Internal Revenue Service, and annual reports to the Department of Labor. The Employer and the Committee shall each keep or cause to be kept such Employee and Participant data and other records, and shall each reasonably give notice to the other of such information, as shall be proper, necessary or desirable to effectuate the purpose of the Plan. Neither the Employer nor the Committee shall be required to duplicate any records kept by the other.

10.05 OTHER COMMITTEE POWERS AND DUTIES

The Committee shall have such duties and powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following:

- (a) To construe and interpret the Plan, including the supplying of any omissions in accordance with the intent of the Plan, decide all questions of eligibility, determine the amount, manner and time of payment of any benefits hereunder, and to authorize the payment of benefits;
- (b) To prescribe forms and procedures to be followed by the Participants, spouses, and Beneficiaries filing applications for benefits;
- (c) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan;
- (d) To receive from the Employer and from Participants such information as shall be necessary for the proper administration of the Plan;
- (e) To furnish the Employer, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate;
- (f) To receive, review and keep on file (as it may deem convenient or proper) reports of the financial condition, and of the receipts and disbursements, of the Trust Fund from the Trustee;
- (g) To appoint, employ or designate individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal and actuarial counsel;
- (h) To make such equitable and practical adjustments as may be necessary to correct mistakes of fact or other errors; and
- (i) To authorize amendments of the Plan by a Company officer, provided such amendments are of a non-substantive nature and do not significantly increase the cost of the Plan; and

(j) To exercise such other powers and duties as the Board may delegate

to it.

The Committee may retain auditors, accountants, physicians, actuaries, legal counsel and other professional advisors selected by it. The opinion of, or information and data contained in any certificate or report or other material prepared by any such auditor, physician, actuary, accountant, legal counsel, or other professional advisor, shall be full and complete authority and protection in respect of any action taken, suffered or omitted by the Committee or other Fiduciary in good faith and in accordance with such opinion or information and no member of the Committee or other Fiduciary shall be deemed imprudent by reason of any such action.

10.06 RULES AND DECISIONS

The Committee may adopt such rules as it deems necessary, desirable or appropriate for the proper and efficient administration of the Plan and as are consistent with the provisions of the Plan. Rules and decisions of the Committee shall not discriminate in favor of officers, directors, or Highly Compensated Employees of the Employer. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished by a Participant, spouse, Contingent Annuitant or Beneficiary, the Employer, the legal counsel of the Employer, an Actuary, consultant, or the Trustee. The Committee shall have and shall exercise complete discretionary authority to construe, interpret and apply all of the terms of the Plan, including all matters relating to eligibility for benefits, amount, time or form of benefits, and any disputed or allegedly doubtful Plan terms. Any such construction, administration, interpretation or application shall be final, binding and conclusive upon all persons including, but not by way of limitation, Employees, Participants, spouses, Contingent Annuitants, Beneficiaries, and their heirs, and personal representatives, and any other person claiming an interest under the Plan and shall not be deemed imprudent. In exercising such discretion, the Committee shall give controlling weight to the intent of the Plan.

10.07 COMMITTEE PROCEDURES

The Committee may act at a meeting or in writing without a meeting. All decisions of the Committee shall be made by the vote of the majority including actions in writing taken without a meeting. The Committee may adopt such operating procedures and regulations as it deems desirable for the conduct of its affairs and may authorize a member, or each member, of the Committee to act on its behalf in certain administrative matters deemed by them to be routine in nature, including the execution of documents. No Committee member who is a Participant shall have any vote in any decision of the Committee made uniquely with respect to such Committee member or his benefits hereunder.

10.08 AUTHORIZATION OF BENEFIT PAYMENTS

The Committee shall issue directions to the Trustee concerning all benefits which are to be paid from the Trust Fund pursuant to the provisions of the Plan, and certify that all such directions are in accordance with the Plan.

10.09 APPLICATION AND FORMS FOR PAYMENT

The Committee shall require a Participant to complete and file with the Committee an application for distribution of benefits and all other forms approved by the Committee for the purpose and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information furnished to it, including the Participants current mailing address. To the extent that the Committee shall prescribe forms for use by the Participants, former Participants, and their respective spouses, Contingent Annuitants or Beneficiaries in communicating with the Employer or the Committee, as the case may be, and shall establish periods during which communications may be received, they and the Employer shall respectively be protected in disregarding any notice or communication for which a form shall so have been prescribed and which shall not be made on such form and any notice or communication for the receipt of which a period shall so have been established and which shall not be received during such period, or in accepting any notice or communication which shall not be made on the proper form and/or received during the proper period. The Employer and the Committee shall respectively also be protected in acting upon any notice or other communication purporting to be signed by any person and reasonably believed to be genuine and accurate, and shall not be deemed imprudent by reason of so doing.

10.10 CLAIMS PROCEDURE

The Committee shall notify each Participant of his entitlement to receive benefits under this Plan, and shall provide appropriate forms on which application for such benefits may be made.

Each Participant, spouse, Contingent Annuitant or Beneficiary claiming a benefit under the Plan must complete and file such application forms with the Committee. One Committee member (or his designee) shall be designated to review all applications for benefits. He shall notify the claimant in writing of his decision within ninety (90) days of his receipt of the application. If special circumstances require any extension of time (not to exceed ninety (90) days) for processing the claim, the claimant will be notified in writing of the extension prior to the expiration of the initial ninety (90) day period.

The reviewing member of the Committee shall make all determinations on behalf of the Committee as to the right of any person to a benefit. Any denial by the reviewing Committee member of a claim for benefits shall be stated in writing and delivered or mailed to the claimant. The notice shall be written to the best of the reviewing Committee member's ability in a manner that may be understood without legal or actuarial counsel. Such notice shall set forth specific reasons for the denial, specific references to the pertinent Plan provisions on which the denial is based, an explanation of the Plan's claim review procedures, and, if applicable, a description of additional material or information necessary for the claimant to perfect his claim. If the reviewing Committee member rejects the application solely because the claimant failed to furnish certain necessary material or information, the notice shall explain what additional material is needed and why, and advise the claimant that he may refile a proper application under the above claim procedure.

10.11 APPEAL AND REVIEW PROCEDURE

If a claim has been denied by the reviewing Committee member, the claimant may appeal the denial within sixty (60) days after his receipt of written notice thereof by submitting in writing to the Committee a request for review of the denial of such claim. A claimant may also submit a written statement of issues and comments concerning his claim, and he may request an opportunity to review the Plan, the Trust and any other pertinent documents

(which shall be made available to him by the Committee within thirty (30) days after its receipt of a copy of the request) at a convenient location during regular business hours.

If an appeal is made, the Committee shall render its final decision with the specific reasons therefor in writing and transmit it to the claimant by certified mail within 60 days of its receipt of the request for review (or within 120 days in the event a hearing is granted).

All interpretations, determinations, and decisions of the Committee or its designated representative with respect to any issue herein will be final, conclusive, and binding upon all interested parties.

10.12 EVIDENCE

Evidence required of anyone under the Plan may be given by certificate, affidavit, document or in such other form as the person to whom such evidence is given considers appropriate.

ARTICLE 11 - FUNDING OF THE PLAN

11.01 MEDIUM OF FUNDING

The Plan will be funded through one or more Trust Funds established by the Employer.

11.02 CONTRIBUTIONS

The Employer shall make such contributions to the Trust Fund from time to time as may be necessary to maintain the Plan on a sound actuarial basis and meet the funding requirements of ERISA. In determining such contributions, the earnings of the Trust Fund and any amounts forfeited by Terminated Participants shall be considered as a part of the Trust Fund in establishing the cost of maintaining the Plan.

11.03 FUND TO BE FOR THE EXCLUSIVE BENEFIT OF PARTICIPANTS

The contributions made to the Trust Fund by the Employer under the Plan shall be for the exclusive benefit of Participants, Retired Participants, and Terminated Participants, and no part of the Trust Fund shall revert to the Employer, except such amounts as may remain after the satisfaction of all liabilities to Participants, Retired Participants, Terminated Participants, surviving spouses, Contingent Annuitants, and Beneficiaries upon termination of the Plan.

11.04 FORFEITURES

All amounts forfeited by Terminated Participants shall be used to reduce the Employer's cost of the Plan, and shall not be used to increase the benefits of other Participants under the Plan.

11.05 INTERESTS OF PARTICIPANTS IN TRUST FUND

No Participant shall have any right, title or interest in any part of the assets of any Trust Fund except as and to the extent expressly provided by the Plan.

11.06 PAYMENT OF EXPENSES

It is intended that the administrative and all other expenses of the Plan shall be paid by the Trust Fund, unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any such expenses.

12.01 PAYMENT OF SMALL AMOUNTS

benefit commencement date

In the event that the Actuarial Equivalent of the Participant's accrued benefit is \$3,500 (\$5,000 commencing October 1, 2001) or less on the determination date, the accrued benefit shall be automatically paid in a lump sum. Notwithstanding this above, if the Actuarial Equivalent of the Participant's accrued benefit derived from Employer contributions is \$3,500 (\$5,000 commencing October 1, 2001) or less, after distribution of the Participant's Accumulated Contribution Account, a Participant may elect to receive distribution of his remaining Employer provided accrued benefit provided the appropriate spousal consent as set forth in Section 5.024 is obtained.

No distribution may be made under this Section 12.01 after a Participant's benefit commencement date, unless the Participant and the Participant's spouse, or where the Participant has died, the surviving spouse consents in writing to such distribution.

12.02 DEEMED DISTRIBUTION

If the Actuarial Equivalent of the vested portion of a Participant's accrued benefit is zero, the Participant shall be deemed to have received a single sum distribution of the vested portion of his accrued benefit on his date of termination of employment and the nonvested portion of his accrued benefit shall thereupon be forfeited. If such Participant resumes employment covered under the Plan before the date he incurs a Break in Service on or after January 1, 1985 which equals or exceeds the greater of five years or the number of years of Service which the Employee completed prior to the Break in Service, the nonvested portion of the accrued benefit forfeited pursuant to this Section 12.02 shall be restored on the Participant's date of reemployment.

12.03 PAYMENTS FOR INCAPACITATED PERSONS

Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit, or installment thereof, hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his financial affairs, the Committee may direct the Trustee to make payments to the legal representative of such person. Any payment of a benefit or installment thereof in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

If any Beneficiary of any Participant or former Participant shall be a minor, the Trustee shall be fully protected in making any payment required to be made to such minor to any person who shall be a custodian or guardian for such minor.

12.04 SPENDTHRIFT

Except as provided in Section 12.05, no benefit payable at any time under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer, assignment, pledge, attachment or encumbrance of any kind. No benefit and no Trust Fund established in connection with the Plan shall in any manner be subject to the debts or liabilities of any person entitled to such benefit. Effective August 5, 1997, the Plan shall recognize judgements or settlements described in Sections 401(a)(13)(C) and (D).

12.05 PAYMENT UNDER QUALIFIED DOMESTIC RELATIONS ORDERS

Notwithstanding any provision of the Plan to the contrary, if there is entered any qualified domestic relations order (within the meaning of Section 414(p) of the Code and ERISA Section 206(d)(3)(B), as added by the Retirement Equity Act of 1984) that affects the payment of benefits hereunder, such benefits shall be paid in accordance with the applicable requirements of such order.

12.06 LATEST COMMENCEMENT OF BENEFITS

In no case, unless the Participant otherwise elects in accordance with Section 401(a)(14) of the Code and the Treasury Regulations promulgated thereunder, will the payment of benefits to any Participant commence later than the 60th day after the latest of the following: (i) the close of the Plan Year of the Participant's Normal Retirement Date (as

defined in Section 4.01); (ii) the close of the Plan Year in which occurs the tenth anniversary of the year in which the Participant commenced participation in the Plan; or (iii) the close of the Plan Year in which the Participant terminates his service with the Employer and all Affiliated Employers, subject to the requirements of Code Section 401(a)(9).

12.07 COMMENCEMENT OF BENEFITS PRIOR TO NORMAL RETIREMENT AGE

Notwithstanding anything herein to the contrary, except as provided in Section 12.01, no benefit shall commence to the Participant or the Participant's spouse prior to the date the Participant attains or would have attained his Normal Retirement Age without the consent of the Participant and the Participant's spouse, if required by applicable law. Such consent must be obtained not more than 90 days prior to the benefit commencement date.

12.08 DISTRIBUTION OF BENEFITS BEGINNING BEFORE DEATH AND AFTER DEATH

- (a) DISTRIBUTION BEGINNING BEFORE DEATH. If distribution to the Participant has begun and the Participant dies before his entire Vested Benefit has been distributed, the remaining portion of such Vested Benefit shall be distributed to his Beneficiary or Contingent Annuitant, as least as rapidly as under the method of payment in effect at the Participant's date of death.
- (b) DISTRIBUTION BEGINNING AFTER DEATH. If the Participant dies before commencement of his Vested Benefit, distribution of the Participant's entire Vested Benefit shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death, except that:
 - (i) if the Participant's designated Beneficiary is an individual other than the Participant's spouse, the Participant's interest may be distributed over the life expectancy of his Beneficiary, beginning on or before December 31 of the calendar year immediately following the calendar year in which the Participant died; and
 - (ii) if the Participant's designated Beneficiary is his spouse, the Participant's interest may be distributed over the life expectancy of his spouse, beginning on or before the later

of:

(A) December 31 of the calendar year next following the calendar year in which the Participant died; or

(B) December 31 of the calendar year in which the

Participant would have attained age 70 1/2.

12.09 DIRECT ROLLOVER DISTRIBUTIONS

Notwithstanding any provision of the Plan to the contrary, if any distribution to a Distributee (i) is made on or after January 1, 1993, (ii) totals \$200 or more, and (iii) constitutes an Eligible Rollover Distribution, the Distributee may elect on a form provided by the Committee to have all or part of such Eligible Rollover Distribution paid in a direct rollover to an Eligible Retirement Plan selected by the Distributee. For this purpose, a Distributee, an Eligible Rollover Distribution, and an Eligible Retirement Plan shall be defined as follows:

- (a) Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.
- (b) Eligible Rollover Distribution means any distribution of all or any portion of the balance to the credit of a Distributee, except that an Eligible Rollover Distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; effective January 1, 1999, any hardship distribution as defined by Code Section 401(k) (2)(B)(i)(IV); and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(c) Eligible Retirement Plan means a plan described below:

(i) an individual retirement account described in Section 408(a) of the Code;

(ii) an individual retirement annuity (other than an endowment contract) described in Section 408(b) of the Code;

(iii) with respect to Participants and Distributees who are alternate payees only, a qualified defined contribution plan and exempt trust described in Sections 401(a) and 501(a) of the Code respectively, the terms of which permit the acceptance of rollover contributions; or

(iv) with respect to Participants and Distributees who are alternate payees only, an annuity plan described in Section 403(a) of the Code.

If an election is made to have only a part of an eligible rollover distribution paid in a direct rollover, the amount of the direct rollover must total \$500 or more.

Direct rollovers shall be accomplished in accordance with procedures established by the Committee.

ARTICLE 13 - AMENDMENTS TO OR TERMINATION OF THE PLAN

13.01 RIGHTS OF THE EMPLOYER TO AMEND OR TERMINATE

(a) While it is the intention of the Employer to continue the Plan indefinitely, the Employer reserves the right to modify, amend or terminate the Plan in whole or in part at any time by an instrument in writing pursuant to authority of a vote of the Board of Directors; provided, however, that the Plan shall not be amended in such manner as would cause or permit any part of the Trust to be diverted for purposes other than for the exclusive benefit of Participants, Retired Participants, and Terminated Participants; decrease a Participant's accrued benefit or eliminate an optional form of payment with respect to benefits accrued as of the later of the (a) the date such amendment is adopted, or (b) the date the amendment becomes effective; or to revert to or become the property of the Employer, prior to the satisfaction of all liabilities under the Plan with respect to Participants, Retired Participants, Terminated Participants, surviving spouses, Contingent Annuitants, and Beneficiaries.

(b) If any Plan amendment changes the vesting schedule set forth in

Section 6.02, each Participant who has completed at least three (3) years of Service on the effective date of the change in the vesting schedule shall have his vesting percentage computed in accordance with the vesting schedule which produces the highest vested benefit.

13.02 TERMINATION OF THE PLAN

(a) Upon termination of the Plan due to any reason, or partial termination in accordance with the regulations of the Treasury Department, the rights of all non-vested Participants affected by such termination to benefits accrued prior to the date of such termination shall be nonforfeitable. The assets of the Plan shall thereupon be allocated in accordance with the provisions of Sections 13.03 and 13.04. No Participant or any other person shall have the right to seek payment of benefits directly from the Employer and all persons shall look solely to the Trust Fund for payment of benefits. Such payments shall be made only to the extent that the funds held in the Trust are sufficient therefor, except as may be otherwise guaranteed by the Pension Benefit Guaranty Corporation.

- (b) Upon termination of the Plan, benefits of missing Participants shall be treated in accordance with Section 4050 of ERISA.

13.03 LIMITATIONS ON BENEFITS UPON TERMINATION

The allocation of the amounts in Section 13.04 shall be based on the actuarial value of the benefit payable under the Plan at Normal Retirement Age as a life annuity, without death benefit, not in excess of the lesser of:

- (a) 100% of the Participant's monthly compensation averaged over the five consecutive years in which his compensation was the highest; or
- (b) such amount as determined according to the regulations of the Pension Benefit Guaranty Corporation. Such amount shall be subject to adjustment each year to reflect changes in the Social Security contribution and benefit base, any such adjustments shall be in accordance with regulations issued by the Pension Benefit Guaranty Corporation.

13.04 ALLOCATION OF ASSETS

After providing for the expenses incurred in terminating the Plan, the assets shall be used and applied for the benefit of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries), Participants, and Terminated Participants who at the date of retirement or termination of employment may have been entitled to retirement benefits, to be allocated in the following order:

- (a) FIRST: the accrued benefit equal to 10% of the Participant's Accumulated Contributions Account, plus 5% interest thereon from the date of termination, accrued to age 65.
- (b) SECOND: If any assets remain after allocation for the purposes of paragraph (a), assets shall be allocated to provide pensions for life, on the basis of the Plan provisions in effect at the beginning of the five-year period ending on the date of Plan termination, to Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) who have been receiving benefits

for three years prior to the date of termination and Participants and Terminated Participants who have met the requirements for normal or early retirement benefit at least three years prior to the date of termination.

- (c) THIRD: If any assets remain after allocation for the purposes of paragraphs (a) and (b), they shall be allocated to provide a benefit for life, on the basis of the Plan provisions in effect five years prior to the date of Plan termination, to all other Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) and all other Participants and Terminated Participants who are not included in paragraph (a) and who have met the requirements for Normal or Early Retirement or for a Vested Benefit under Article 6 at the date of termination.
- (d) FOURTH: If any assets remain after allocation for the purposes of paragraphs (a), (b), and (c), they shall be allocated to provide the benefit, if any, in excess of the benefit provided by the allocations under paragraphs (a), (b), and (c) necessary to bring the benefits of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries) and all Participants and Terminated Participants who have met the requirements for Normal or Early Retirement or a Vested Benefit under Article 6 at the date of Plan termination up to the full amount of the accrued retirement benefit provided under the Plan as of the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.
- (e) FIFTH: If any assets remain after allocation for the purposes of paragraphs (a), (b), (c), and (d), they shall be allocated to provide benefits to all other Participants of the Plan on the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.
- (f) SIXTH: If any assets remain after the complete allocation for the foregoing purposes of this Article 13, they shall be returned to the Employer.

If the allocable assets are insufficient to provide in full for the allocations under any of the foregoing paragraphs after the provision for all allocations under previous paragraphs, each allocation under such paragraph as to which assets are insufficient shall be reduced pro-rata.

No allocations will be made under the foregoing Section with respect to any benefits accrued under the Plan after the Secretary of the Treasury has issued notice that the Plan does not meet the requirements of Section 401(a) of the Code.

13.05 DISTRIBUTION MEDIA

The allocations for which provision is made in this Article 13 may be

accomplished through:

- (a) group contracts or individual annuity contracts; or
- (b) cash, or
- (c) any combination of the foregoing.

ARTICLE 14 - DISTRIBUTION LIMITATIONS AND EARLY TERMINATION PROVISIONS

14.01 DISTRIBUTION LIMITATIONS

(a) For purposes of this Section 14.01, the following terms shall have the indicated meaning:

(i) "BENEFITS" means the sum of the Participant's accrued benefit and all other benefits to which he is entitled under the Plan, but excluding any death benefit provided for by insurance on the Participant's life.

(ii) "Restricted Participant" means, with respect to a Plan Year, a Highly Compensated Employee who is a Participant and who, if there are more than 25 Highly Compensated Employees, is one of the 25 Highly Compensated Employees with the highest Total Annual Pay, as defined in subparagraph (iii) below.

An individual who is a Restricted Participant in a Plan Year shall be a Restricted Participant in a subsequent Plan Year only if he satisfies the conditions of the previous sentence in such subsequent Plan Year.

If more than one individual has the same Total Annual Pay, the younger individual shall be deemed to have the higher Total Annual Pay.

(iii) "TOTAL ANNUAL PAY" means, with respect to any Plan Year:

(A) In the case of a Highly Compensated Employee who is not currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation (as defined in Section 5.04(c)) for the Plan Year in which he ceased to be employed by the Employer or an Affiliated Employer, or his Section 415 Compensation for the Plan Year immediately preceding that Plan Year, and

(B) In the case of a Highly Compensated Employee who is currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation for the Plan Year in question or for the prior Plan Year.

(b) Subject to paragraph (c) below, a Restricted Participant may not receive his Benefits under this Plan in the form of a single lump sum payment, or other benefit form under which payments during a single year would exceed the annual payments that would be made on behalf of such Participant under a single life annuity that is the Actuarial Equivalent of his benefits (other than the benefits described in paragraph (c)(iii) below).

(c) The limitation of paragraph (b) above shall not apply:

(i) to any payment, if the value of Plan assets after such payment equals or exceeds 110% of the value of the Plan's "CURRENT LIABILITIES" (within the meaning of Section 412(1)(7) of the Code); or

(ii) if the value of the Restricted Participant's Benefit is less than 1% of the value of such current liabilities, or

(iii) to payment of benefits attributable to transferred balances from defined contribution plans or to employee contributions.

(d) In the event that Congress provides by statute, or the Internal Revenue Service provides by regulation or ruling, that the limitations set forth in this Section 14.01 are not necessary for the Plan to meet the requirements of Section 401(a) or other applicable provisions of the Code then in effect, such limitations shall become void and shall no longer apply without the necessity of further amendment to the Plan.

(e) Notwithstanding the foregoing, the limitations of paragraph (b) above shall not apply to any Restricted Participant otherwise subject thereto who enters into a prior written agreement with the Committee to the effect that if the Plan is terminated and distribution of benefits has been or will be made to such Participant regardless of the limitation of paragraph (b) above, such Participant (or, in the case of his death,

his estate or representatives) shall repay to the Trustee a sum equal to the total amounts by which his benefits under the Plan shall exceed benefits determined under the preceding limitation ("Restricted Benefits").

15.01 ARTICLE CONTROLS

Any Plan provisions to the contrary notwithstanding, the provisions of this Article 15 shall control to the extent required to cause the Plan to comply with the requirements imposed by Section 416 of the Internal Revenue Code.

15.02 DEFINITIONS

Where the following words and phrases appear in this Article 15, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

(a) ACCOUNT BALANCE

As of any Valuation Date, the aggregate amount credited to an individual's account or accounts under a qualified defined contribution plan (excluding the employee contributions which were deductible within the meaning of Section 219 of the Code and rollover or transfer contributions made by or on behalf of such individual to such plan from another qualified plan, sponsored by an entity other than the Employer or an Affiliated Company) increased by (i) the aggregate distributions made to such individual from such plan during a five-year period ending on the Determination Date and (ii) the amount of any contributions due as of the Determination Date immediately following such Valuation Date;

(b) ACCRUED BENEFIT

As of any Valuation Date, the present value (computed on the basis of the Assumptions) of the cumulative accrued benefit (excluding the portion thereof which is attributable to employee contributions which were deductible pursuant to Section 219 of the Code, to rollover or transfer contributions made by or on behalf of such individual to such plan from another qualified plan sponsored by an entity other than the Employer or an Affiliated Company, to proportional subsidies or to ancillary benefits) of an individual under a qualified defined benefit plan increased

by the aggregate distributions made to such individual from such plan during a five-year period ending on the Determination Date;

(c) AFFILIATED COMPANY

Any corporation or other business entity which is required to be aggregated with the Employer by reason of Section 414(b), 414(c) or 414(m) of the Code;

(d) AGGREGATION GROUP

The group of qualified plans (including terminated plans maintained within the five-year period ending on the Determination Date) maintained by the Employer and each Affiliated Company consisting of (i) each plan in which a Key Employee participates and each other plan which enables a plan in which a Key Employee participates to meet the requirements of Section 401(a)(4) or 410 of the Code, or (ii) each plan in which a Key Employee participates, each other plan which enables a plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) and 410 of the Code and any other plan which the Employer elects to include as part of such group; provided, however, that the Employer may not elect to include a plan in such group if its inclusion would cause the group to fail to meet the requirements of Sections 401(a)(4) and 410 of the Code;

(e) ASSUMPTIONS

For purposes of this Article 15, the interest rate and mortality assumptions specified in Section 1.02(a) of the Plan;

(f) DETERMINATION DATE

For the first Plan Year of any plan, the last day of such Plan Year, and for each subsequent Plan Year of such plan, the last day of the preceding Plan Year;

(g) FORMER KEY EMPLOYEE

With respect to any Plan Year, any individual who was a Key Employee in a previous Plan Year but who is not a Key Employee with respect to such Plan Year. For purposes of this definition, a beneficiary (who would not otherwise be a Key Employee) of a deceased Former Key Employee shall be deemed to be a Former Key Employee in substitution for such deceased Former Key Employee;

(h) HIGHEST AVERAGE COMPENSATION

The highest annual average of the taxable compensation paid by the Employer to an Employee during any five (5) consecutive Plan Years (excluding Plan Years prior to the first Plan Year the Plan was top-heavy and excluding Plan Years subsequent to the last Plan Year the Plan was top-heavy), or during all of such Plan Years during which the Employee received taxable compensation from the Employer, if less than five (5);

(i) KEY EMPLOYEE

With respect to any Plan Year, any individual who at any time during such Plan Year or during any of the four (4) Plan Years immediately preceding such Plan Year was (i) an officer of the Employer or an Affiliated Company having an annual compensation greater than 50% of the dollar limitation specified in Section 415(b)(1)(A) of the Code for any such Plan Year, (ii) one of the ten employees having an annual compensation greater than the dollar limitation specified in Section 415(c)(1)(A) of the Code for any such Plan Year, and owning the largest interests in the Employer or an Affiliated Company and owning greater than a 1/2 percent interest in the Employer or an Affiliated Company, (iii), an owner of five percent (5%) or more of the outstanding stock of the Employer or an Affiliated Company or of stock possessing five percent or more of the total combined voting power of all of the stock of the Employer or an Affiliated Company, or (iv) an employee whose Remuneration (during the Plan Year including the Determination Date) exceeded \$150,000 and who was an owner of one percent or more of the outstanding stock of the Employer or an Affiliated Company or of stock possessing one percent or more of the total combined voting power of all of the stock of the

Employer or an Affiliated Company. For 7 purposes of this definition, (i) an individual shall be deemed to own stock owned by other individuals as provided in Section 318 of the Code, but substituting 5% for 50% in subparagraph (C) of Section 318(a)(2) of the Code, (ii) a beneficiary (who would not otherwise be a Key Employee) of a deceased Key Employee shall be deemed to be a Key Employee in substitution for such deceased Key Employee, and (iii) the total number of Key Employees who are officers of the Employer and the Affiliated Companies shall be limited to: if there is a total of less than thirty (30) employees of the Employer and the Affiliated Companies, three (3); if there is a total of more than thirty (30) but less than five hundred (500) employees of the Employer and the Affiliated Companies, ten percent (10%) of such total; and, if there is a total of more than five hundred (500) employees of the Employer and the Affiliated Companies, fifty (50);

(j) NON-KEY EMPLOYEE

An individual who is not a Key Employee;

(k) PLAN YEAR

With respect to any plan, the annual accounting period used by such plan for annual reporting purposes;

(l) REMUNERATION

An individual's earned income, wages, salaries and other amounts actually paid or made available by the Employer or an Affiliated Company to such an individual during a Plan Year for personal services actually rendered in the course of employment with the Employer or an Affiliated Company (subject to exclusion of amounts specified by regulations promulgated under Section 415 of the Code);

(m) TOP-HEAVY SERVICE

Each year of Service, excluding all years of Service credited prior to January 1, 1984 and all years of Service with respect to Plan Years for which the Plan was not top-heavy;

(n) VALUATION DATE

With respect to any Plan Year of any defined contribution plan, the most recent date within the twelve (12) month period prior to a Determination Date as of which the trust fund established under such plan was valued and the net income (or loss) thereof allocated to Participants' accounts. With respect to any Plan Year of a defined benefit plan, the most recent date within a twelve-month period prior to a Determination Date as of which the plan assets were valued for purposes of computing plan costs for purposes of the requirements imposed under Section 412 of the Code.

15.03 TOP-HEAVY STATUS

(a) The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

(i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the five Plan Years ending on the Determination Date shall be taken into consideration.

(ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the period of five years ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such five year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

(iii) If an Employee is not a Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.

(iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Employees who are not Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

(v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.

(vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.02(a).

(vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

(b) If the Plan is determined to be top-heavy for a Plan Year, the annual retirement benefit of each Participant who is a Non-Key Employee shall not be less than the lesser of (i) or (ii), where

(i) is two percent (2%) of the Participant's Highest Average Compensation multiplied by the Participant's Years of Top-Heavy Service; and

(ii) is twenty percent (20%) of the Participant's Highest Average Compensation.

The minimum annual retirement benefit provided by the preceding sentence means the retirement benefit payable annually under the Plan in the form of a single life annuity with no ancillary benefits and beginning on the date the Participant attains Normal Retirement Age. If a Participant actually receives his benefit under the Plan in a different form or commencing at a different time, his benefit shall not be less than the Actuarial Equivalent (using the factors set forth in Section 1.02(c) of the foregoing minimum benefit;

(c) If the Plan is determined to be top-heavy for a Plan Year, the Vested Benefit of any Participant who completes an Hour of Service during such Plan Year or who terminates his service with the Employer during such Plan Year shall be determined in accordance with Section 6.02, but using the following vesting schedule:

YEARS OF SERVICE	VESTED PERCENTAGE
Less than 3 years	0%
3 years or more	100%

If the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule and the provisions of Section 13.01(b) shall be applied.

The provisions of this paragraph (c) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of Section 6.02.

(d) In any Plan Year in which the Plan is top heavy but not super top heavy (substituting 90% for 60% in subparagraph(a) above), Section 5.041(d)(ii) shall be applied by substituting "100%" for "125%" unless the Sponsoring Employer amends subparagraph (b)(i) above by substituting "3%" for "2%" therein. Effective January 1, 2000, this paragraph (d) shall no longer be applicable.

(e) In any Plan Year in which the Plan is super top heavy, the factor

of "125%" shall be changed to "100%" in Section 5.041(d)(ii).
Effective January 1, 2000, this paragraph (e) shall no longer be applicable.

15.04 TERMINATION OF TOP-HEAVY STATUS

Except as specifically provided in Section 15.03(c), if the Plan has been deemed to be top-heavy for one or more Plan Years and thereafter ceases to be top-heavy, the provisions of this Article 15 shall cease to apply to the Plan effective as of the day following the Determination Date on which it is determined to no longer be top-heavy, provided, however, that the accrued benefit of any Participant under the Plan shall not be less than the minimum benefit which such Participant had accrued under Section 15.03(b) as of the last day of the last Plan Year for which the Plan was top-heavy.

ARTICLE 16 - MISCELLANEOUS

16.01 RIGHTS AGAINST THE EMPLOYER

Neither the establishment of the Plan, nor the Trust Fund, nor any modification thereof, nor the payment of benefits hereunder shall be construed as giving any Employee or Participant the right to be retained in the service of the Employer or as interfering with the right of the Employer to discharge any Employee at any time.

16.02 RETURN OF CONTRIBUTIONS

- (a) In the event that the Commissioner of Internal Revenue (or his or her delegate) determines that the Plan is not initially qualified under the Code, any Employer contributions made to the Plan shall be returned to the Employer within one year after the date the initial qualification is denied, provided application for qualification is made by the time prescribed by law for filing the Employer's return for the fiscal year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe.
- (b) Nothing herein shall prohibit a return to the Employer, within one year after payment, of excess sums contributed to the Trust Fund as a result of a mistake of fact.
- (c) Each employer contribution is specifically conditioned on the deductibility of the contribution under Section 404 of the Code, and to the extent such contribution, or any part thereof, is disallowed, the contribution, or any part thereof that is disallowed, shall be returned to the Employer within one year after the date of disallowance.
- (d) The return of a contribution to the Employer pursuant to paragraph (b) or (c) above shall be permitted hereunder only if the amount so returned (i) is the excess of the amount actually contributed over the amount which would have otherwise been contributed, (ii) does not include the earnings attributable to such contribution and (iii) is reduced by any losses attributable to such contribution.

16.03 MERGER

Unless otherwise permitted by law or regulations, the Plan shall not be merged into, or consolidated with, nor shall any assets or liabilities be transferred to, any other pension or retirement plan under circumstances resulting in a transfer of assets or liabilities from the Plan to such other plan unless immediately after any such merger, consolidation or transfer each Employee would if such other plan then terminated, receive a benefit which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer, if the Plan had then terminated.

16.04 LEASED EMPLOYEES

For purposes of the Plan, the term "leased employee" means any person who would not otherwise be considered an Employee but who, pursuant to an agreement between the Employer or an Affiliated Employer and a leasing organization (within the meaning of Section 414(n)(2) of the Code) has performed services for the Employer or Affiliated Employer on a substantially full time basis for a period of at least one year, and such services are performed under the primary direction or control of the Employer or Affiliated Employer. Contributions or benefits provided a leased employee by the leasing organization which are attributable to services performed for the Employer or Affiliated Employer shall be treated as provided by the Employer or Affiliated Employer.

A leased employee shall not be considered an Employee if:

- (a) Such individual is covered by a money purchase pension plan providing (i) a nonintegrated employer contribution rate of at least ten percent of his "Section 415 Compensation" (as defined in Section 5.04(c)), but including amounts contributed pursuant to a salary reduction agreement which are not includable in gross income under Section 125, 402(a)(8), 402(h), or 403(b) of the Code, (ii) immediate participation, and (iii) full and immediate vesting; and
- (b) leased employees constitute twenty percent or less of the Employer's or Affiliated Employer's nonhighly compensated workforce (within the meaning of Section 414(n)(5)(C)(ii) of the Code).

16.05 APPLICABLE LAW

The provisions of this Plan shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts.

16.06 HEADINGS

The headings of the Plan are inserted for convenience of reference only, and shall have no effect upon the meaning of the provisions hereof.

16.07 GENDER AND NUMBER

Wherever used in this instrument, a masculine person shall be deemed to include the masculine and feminine gender, and a singular word shall be deemed to include the singular and plural, in all cases where the context requires.

IN WITNESS WHEREOF, Watts Industries, Inc. has caused this instrument to be executed by its authorized officer and its seal affixed hereto this 28 day of January, 2003

WATTS INDUSTRIES, INC.

(Seal)

By /s/ William C. McCartney

PART A

**WATTS INDUSTRIES, INC.
PENSION PLAN**

WATTS INDUSTRIES, INC.

HOURLY PENSION PLAN

(Amended and Restated Effective as of January 1, 1997)

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INTRODUCTION

The Watts Industries, Inc. Hourly Pension Plan, previously known as the Watts Regulator Co. Hourly Pension Plan, (hereinafter the "Plan") was established, effective January 1, 1985, as a successor to and a continuation of (i) the Webster Foundry Division Hourly Pension Plan, (ii) the Webster Valve Division Hourly Pension Plan, and (iii) the Regtrol, Inc. Hourly Pension Plan (hereinafter the "Prior Plans").

Effective October 18, 1999, all liabilities determined as of October 18, 1999 attributable to active Participants who become Employees of CIRCOR International, Inc. ("CIRCOR") as a result of the corporate spin-off and all allocable assets associated with such liabilities as determined pursuant to

Section 4044 of ERISA using the "safe harbor" assumptions used by the Pension Benefit Guaranty Corporation, as required by Treasury Regulation Section 1.414(l)-1(b)(5)(ii), shall be transferred to the CIRCOR International, Inc. Retirement Plan for Hourly Employees (CIRCOR Hourly Plan).

The physical transfer of assets shall be completed as soon as practicable following receipt by CIRCOR of a favorable determination letter from the Internal Revenue Service to the effect that the CIRCOR Hourly Plan meets the qualification requirements of Code Section 401(a) or an opinion from CIRCOR's legal counsel reasonably satisfactory to Watts Industries, Inc. to the effect that the CIRCOR Hourly Plan meets the qualification requirements of Code Section 401(a).

The amount of assets to be transferred to the CIRCOR Hourly Plan will be equal to the October 18, 1999 allocated amount, which shall be based on the fair market value of Plan assets as of October 18, 1999 plus any portion of the minimum required contribution for the 1999 Plan year not contributed by October 18, 1999, plus investment return as earned by the trust from October 18, 1999 to the most recent trust statement date prior to the transfer date, plus interest based upon the average of the three-month Treasury bill rates as published by the Wall Street Journal from the most recent monthly trust statement date to the transfer, date, less allocated benefit payments and expenses from October 18, 1999 to the transfer date.

The Plan was last restated by Watts Industries, Inc. (hereinafter the "Sponsoring Employer") effective January 1, 1994 to comply with the Tax Reform Act of 1986, the Omnibus Budget Reconciliation Acts of 1986, 1987, 1989 and 1993, the Technical and Miscellaneous Revenue Act of 1988, and the Unemployment Compensation Amendments of 1992. The Sponsoring Employer is hereby amending and restating the Plan, unless specifically stated otherwise, effective January 1, 1997 to comply with the General Agreement on Tariffs and Trade, the Uniformed Services Employment and Reemployment Rights Act, Small Business Job Protection Act of 1996, the Tax Reform act of 1997, and the Internal Revenue Service Restructuring and Reform Act of 1998.

(i)

Effective December 31, 2001, the Plan shall be merged into the Watts Industries, Inc. Retirement Plan for Salaried Employees, which effective January 1, 2002 shall be renamed the Watts Industries, Inc. Pension Plan and its terms and conditions shall be incorporated into and made a part thereof as Part A.

It is the intention of the Sponsoring Employer that the Plan as herein amended and restated shall continue to be recognized as a qualified pension plan under Sections 401(a) and 501(a) of the Internal Revenue Code. The provisions of the Plan as set forth in this Plan document shall apply only to an Eligible Employee who terminates employment on or after the effective date of a provision as set forth herein. The rights and benefits, if any, of an Employee who terminated employment prior to the effective date of a provision as set forth herein shall be determined in accordance with the provisions of the Plan as in effect on the date his employment terminated.

(ii)

ARTICLE I - DEFINITIONS

The following words and phrases shall be defined as stated unless a different meaning is plainly required by the context:

- 1.01 "ACTUARIAL EQUIVALENT" or any term of similar import, wherever used in the Plan, means a benefit of equivalent value determined as follows:
- (a) For purposes of Section 14.02(e), Actuarial Equivalents will be determined using a 5% interest rate and the UP-1984 Mortality Table for Employees and the UP-1984 Mortality Table set back 3 years for Beneficiaries;
 - (b) The following provisions of this subsection (b) shall apply to Limitation Years beginning on or after January 1, 1995. For purposes of Section 5.04(e), the Actuarial Equivalent shall be determined using either the arithmetical factors specified in Section 5.05(b) or an interest rate of 5% and the mortality table prescribed by the IRS Commissioner in Rev. Rul. 95-6, 1995-1 CB 80, whichever produces a larger reduction in the maximum annual amount. For purposes of Section 5.04(f), the Actuarial Equivalent shall be determined using either an interest rate of 7% and the UP-1984 Mortality Table or an interest rate of 5% and the mortality table prescribed by the IRS Commissioner in Rev. Rul. 95-6, 1995-1 CB 80, whichever produces the smaller increase in the maximum annual amount. For purposes of Section 5.04(g), Actuarial Equivalent will be determined using either an interest rate of 7% and the UP-1984 Mortality Table or an interest rate of 5% and the mortality table prescribed by the IRS Commission in Rev. Rul. 95-6, 1995-1 CB 80, whichever produces the smaller single life annuity. If the benefit is payable in the form of a lump sum payment, the 5% interest rate shall be replaced by the rate on 30-year Treasury Constant Maturities for the month of November prior to the Plan Year of the distribution date;
 - (c) For purposes of Section 5.021, 5.051, 6.022, 8.02, 8.03 and 14.03(b), Actuarial Equivalents will be determined using a 7% interest rate and the UP-1984 Mortality Table for Employees and the UP-1984 Mortality Table set back 3 years for Beneficiaries;

(d) For purposes of Section 12.01, Actuarial Equivalents will be determined as follows: (i) prior to October 1, 1995, by using the rates and mortality table described in (c) above, except that the interest rate for immediate annuities set by the Pension Benefit Guaranty Corporation for the month of payment for lump sum payments will be used, and (ii) on or after October 1, 1995, by using an interest rate equal to the interest rate on 30-year Treasury Constant Maturities for (A) January, 1995 for distributions made during the period commencing October 1, 1995 and ending December 31, 1995 or (B) October of the Plan Year prior to the Plan Year of distribution for distributions made on or after January 1, 1996;

(e) For purposes of Article 13, Actuarial Equivalents shall be

determined as specified in regulations promulgated by the Pension Benefit Guaranty Corporation.

1.02 "ACTUARY" means the actuarial consultant or actuarial consultants designated from time to time to make actuarial computations in connection with the Plan.

1.03 "AFFILIATED EMPLOYER" means any of the following (other than the Employer):

- (a) Any corporation which is a member of a controlled group of corporations which includes the Employer, determined under the provisions of Section 414(b) of the Code;
- (b) Any trade or business which is under common control (as defined in Section 414(c) of the Code) with the Employer;
- (c) Any organization which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Employer; and
- (d) Any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.

A corporation, trade or business or member of an affiliated service group shall be treated as an Affiliated Employer only while it is a member of the controlled group.

1.04 "BENEFICIARY" means any person other than a Contingent Annuitant entitled to receive any death benefits payable upon the death of the Participant.

- 1.05 "BENEFIT COMMENCEMENT DATE" means the first day of the month on which an amount is paid in accordance with the provisions of the Plan. If benefit payments are suspended pursuant to Section 5.07 for a Participant who has not terminated employment and who does not receive a benefit payment, the recommencement of benefit payments shall be treated as a new Benefit Commencement Date.
- 1.06 "BOARD OF DIRECTORS" or "BOARD" means the Board of Directors of the Sponsoring Employer.
- 1.07 "CODE" means the Internal Revenue Code of 1986, as amended from time to time. Reference to a specific provision of the Code shall include such provision, any valid regulation or ruling promulgated thereunder, and any provision of future law that amends, supplements, or supersedes such provision.
- 1.08 "COMMITTEE" means the Pension Committee appointed to administer the Plan as set forth in Article 10.
- 1.09 "CONTINGENT ANNUITANT" means the person designated by the Participant to receive a benefit under the Contingent Annuitant Option following the death of the Participant in accordance with Article 8.
- 1.10 "EFFECTIVE DATE" means January 1, 1997 for this restated Plan. The original Effective Date of the Plan is January 1, 1985.
- 1.11 "ELIGIBLE EMPLOYEE" means any person who is an Employee of the Employer and whose remuneration is regularly computed on an hourly, daily, piecework, or other comparable basis, thereby excluding any person whose remuneration is regularly computed on an annual, monthly, semi-monthly, weekly, commission or other comparable basis. The term "Employee" shall not include any person employed by the Employer who is covered under a collective bargaining agreement which does not provide for participation in this Plan, or any Employee who is a leased employee within the meaning of Section 414(n)(2) of the Code.
- 1.12 "EMPLOYEE" means any person currently employed by the Employer or an Affiliated Employer. The term "Employee" also includes any leased employees of the Employer or an Affiliated Employer within the meaning of Section 414(n)(2) of the Code to the extent such employees are deemed to be "Employees" in accordance with the provisions of Section 15.04.

- 1.13 "EMPLOYER" means Watts Industries, Inc., or any successor thereto, and any other entity now or hereafter affiliated with Watts Industries, Inc. which adopts this Plan by vote of its board of directors and with the consent of Watts Industries, Inc. As of January 1, 1997, the following entities affiliated with Watts Industries, Inc. have adopted the Plan and are therefore considered to be an Employer: Watts Regulator Co., KF Industries, Inc., Leslie Controls, Inc., Rudolph Labranche, Inc., Watts Automatic Control Valve Co., Inc., Circle Seal Controls, Inc., Anderson-Barrows Metal Corporation and Webster Valve, Inc. Effective January 1, 2001, the term "Employer" also includes McCraney, Inc. (dba "Spacemaker") and "Watts Heatway, Inc." (now called Watts Radiant, Inc.) Effective October 18, 1999, Industrial Products Division, KF Industries, Inc., Circle Seal Controls, Inc. and Leslie Controls are no longer considered to be an Employer due to their spinoff to CIRCOR International, Inc.

The term "Employer" also includes all of the foregoing as the context may require.

- 1.14 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time. Reference to a specific provision of ERISA shall include such provision, any valid regulation or filing promulgated thereunder, and any provision of future law that amends, supplements, or supersedes such provision.
- 1.15 "FIDUCIARY" means the Employer, the Committee, the Trustee, and/or other parties named as Fiduciaries pursuant to Section 10.1, but only with respect to the specific responsibilities of each for Plan and Trust administration, as described in Article 10.
- 1.16 "HIGHLY COMPENSATED EMPLOYEE" means, with respect to a Plan Year, any Employee who performs services for the Employer or an Affiliated Employer during the Determination Year and who:
- (a) Was a 5% owner (within the meaning of Section 416(i)(1)(B)(i) of the Code) at any time during the Determination Year or Look Back Year; or
 - (b) Received compensation from the Employer or an Affiliated Employer in excess of \$80,000 (as adjusted pursuant to Section 415(d) of the Code) during the Look Back Year; and was among the top 20% of Employees when ranked on the basis of compensation paid during the Look Back Year.

The term Highly Compensated Employee shall also include any former Highly Compensated Employee who terminated employment with the Employer or an Affiliated Employer prior to the Determination Year, performs no services for the Employer or an Affiliated Employer during the Determination Year, and was a Highly Compensated Employee in either his or her year of termination of employment or in any Determination Year ending on or after his attainment of age 55.

For purposes of determining an Employee's compensation under this Section, compensation shall mean the Employee's Section 415 Compensation (as defined in Section 5.04(c)), but including any amounts contributed on behalf of the Employee by an Employer or Affiliated Employer pursuant to a salary deferral agreement under this Plan (or any other cash or deferred arrangement described in Section 401(k) of the Code), to any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code, or effective January 1, 2001 any amounts deferred under Section 132(f)(4) of the Code.

For purposes of this Section, "Look Back Year" means the period of twelve consecutive months immediately preceding the Determination Year. Also for purposes of this Section, "Determination Year" means the Plan Year that is being tested for purposes of determining if an Employee is a Highly Compensated Employee.

1.17 "LIMITATION YEAR" means the calendar year.

1.18 "NORMAL RETIREMENT AGE" means the Participant's age on the later of:

(a) the Participant's 65th birthday; or

(b) the fifth anniversary of the date on which the Participant began

participation in the Plan.

1.19 "PARTICIPANT" means any Employee who has satisfied the eligibility requirements for participation in the Plan as set forth in Article 3 and is a Participant hereof.

1.20 "PLAN" means the Watts Industries, Inc. Hourly Pension Plan as described in this instrument and as it may be amended hereafter.

- 1.21 "PLAN ADMINISTRATOR" means the Committee, notwithstanding the fact that certain administrative functions under or with respect to this Plan may have been delegated to any other person, persons, or entity.
- 1.22 "PLAN YEAR" means the twelve-month period beginning on January 1 and ending on the following December 31.
- 1.23 "PRIOR PLAN" means each or all, as the context may require, of the following: (a) the Webster Foundry Division Hourly Pension Plan, (b) the Webster Valve Division Hourly Pension Plan, and (c) the Regtrol, Inc. Hourly Pension Plan.
- 1.24 "RETIRED PARTICIPANT" means a former Participant who has retired under the terms of the Plan and who has become eligible to receive benefits under the Plan.

1.25 "SOCIAL SECURITY RETIREMENT AGE" means:

- (a) for persons born prior to 1938, age 65;
- (b) for persons born in 1938 or later but prior to 1955, age 66; and
- (c) for persons born in 1955 or later, age 67.

- 1.26 "SPONSORING EMPLOYER" means Watts Industries, Inc. or any successor thereto.
- 1.27 "TERMINATED PARTICIPANT" means a former Participant who has ceased to be an Employee prior to his Normal Retirement Date (as defined in Section 4.01) for any reason other than death or retirement in accordance with the terms of the Plan.
- 1.28 "TRUST" means the agreement between the Employer and the Trustee which constitutes part of this Plan, or any other trust created by agreement between the Employee and a Trustee named therein which shall also constitute a part of this Plan, as the same may be amended from time to time.
- 1.29 "TRUST FUND" or "TRUST" means the Watts Industries, Inc. Master Trust, maintained in accordance with the terms of the agreement under which the Trust was established, as it may be amended from time to time.
- 1.30 "TRUSTEE" means the person, persons, or entity named as Trustee, or any successor to that office.

ARTICLE 2 - SERVICE

2.01 SERVICE PRIOR TO JANUARY 1, 1985

With respect to employment prior to January 1, 1985, Service shall mean "Service" as defined under the Prior Plans.

2.02 VESTING AND ELIGIBILITY SERVICE ON OR AFTER JANUARY 1, 1985

An Employee must accumulate at least 1,000 Hours of Service during a 12-month computation period in order to be credited with a year of Service for vesting and eligibility purposes. The 12-month computation period for purposes of determining a year of Service for vesting under Section 6.02 is the Plan Year. The 12-month computation period for purposes of determining a Year of Service for eligibility under Section 3.01 is the 12-month period beginning when the Employee first performs an Hour of Service and the subsequent computation periods shall be the Plan Year beginning with the Plan Year that includes the first anniversary of the date the Participant first performs an Hour of Service.

If an Employee, who has not incurred a Break in Service, fails to complete at least 1,000 Hours of Service during such Plan Year, he shall be credited with a portion of a year of Service as provided in the

following:

Hours of Service	Service (1.0 = 1 year)
1,000 or more	1.0
936-999	.5
728-935	.4
501-727	.3
less than 501	0

During any computation period in which an Employee's Hours of Service cannot be determined, the Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes one Hours of Service.

Notwithstanding any other provision of this Section 2, Service with the entities listed in Section 3.01(b) shall be taken into account for vesting and eligibility purposes.

2.021 BREAK IN SERVICE DEFINED ON AND AFTER JANUARY 1, 1985

Service shall be considered broken by the following, provided that
Service will not be broken during any Plan Year in which an Employee

completes more than 500 Hours of Service:

- (a) voluntary quit;
- (b) discharge;
- (c) illness or injury in excess of one year;
- (d) layoff in excess of one year;
- (e) authorized leave of absence in excess of one year; or
- (f) failure to return to the Service of the Employer upon the

expiration of an authorized leave of absence; or within the period
of time entitling an Employee to reemployment rights after
discharge from the Armed Forces of the United States of America.

For purposes of the Plan, a one-year Break in Service shall be deemed to
have occurred at the end of any Plan Year in which an Employee fails to
accumulate more than 500 Hours of Service.

2.022 BREAK IN SERVICE RULES APPLICABLE TO YEARS OF SERVICE ON AND AFTER
JANUARY 1, 1985

If an Employee whose service is broken is subsequently reemployed by the
Employer or an Affiliated Employer and completes one year of Service, as
provided in Section 3.03, his prior Service shall be reinstated as of his
reemployment date, provided the conditions of (a) or (b) below have been
met:

- (a) if he had met the requirements for a Vested Benefit under Article
6 at the time his prior Service was broken; or

(b) if he has not met the requirements for a Vested Benefit, and the date of reemployment is on or after January 1, 1985, and upon his reemployment, the number of consecutive one-year Breaks in Service between the date his prior Service is deemed broken and his date of reemployment does not equal or exceed the greater of five (5) years or the aggregate number of his years of Service prior to his most recent Break in Service.

(c) Effective October 1, 2001, if a Participant incurs a

Break-in-Service and is subsequently reemployed and he thereafter meets the definition of Eligible Employee and completes one year of Service, as provided in Section 3.03, his prior Service shall be reinstated as of his date of reemployment.

2.03 HOUR OF SERVICE DEFINED

Hour of Service means:

- (a) Each hour for which an Employee is directly or indirectly paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer; such hours to be credited to the computation period in which the duties are performed;
- (b) Each hour for which an Employee is directly or indirectly paid or entitled to payment on account of a period of time during which no duties are performed for the Employer or an Affiliated Employer (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), lay-off, jury duty, military duty or leave of absence (but excluding any payments made or due under a plan maintained solely for the purpose of complying with workmen's compensation, unemployment compensation, or disability insurance laws); provided, however, that no more than 501 hours shall be credited to an Employee under this paragraph (b) on account of any single continuous period of absence;
- (c) Each hour, not credited under (a) or (b) above during any absence listed in Section 2.02, which does not break his Service, provided that the Employee retires or returns to the employ of the Employer or an Affiliated Employer upon the expiration of such absence;

(d) Each hour not counted under paragraphs (a), (b), or (c) above for which back pay, irrespective of mitigation of damages, is awarded or agreed to by the Employer or an Affiliated Employer; such hours to be credited under the computation period to which the back pay award or agreement is applicable;

(e) Hours credited under paragraphs (b) and (c) above shall be computed on the basis of the number of hours for which the Employee would have been compensated if he had continued to work his regular work schedule during his period of absence; provided, however, that in the case of hours credited under paragraph (b), such number of hours shall not be less than the number of hours the Employee would receive if such computation had been made in accordance with the provisions of Section 2530.200b-2(b) and (c) of the Labor Department Regulations which are incorporated herein by reference;

(f) Solely for purposes of determining whether a Break-in-Service has occurred with respect to Section 2.021, each non-compensated hour during a period of absence from the Employer (i) by reason of the Employee's pregnancy, (ii) by reason of the birth of the Employee's child, (iii) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement shall be credited to the Employee. For purposes of this subsection

(f) the following special rules will apply:

(i) any Hour of Service credited hereunder with respect to an absence shall be credited (A) only in the Plan Year in which the absence begins, if the Employee would be prevented from incurring a Break-in-Service in such year solely because of Hours of Service credited hereunder for such absence, or (B) in any other case in the immediately following Plan Year;

(ii) no Hours of Service shall be credited hereunder unless the Employee furnishes the Committee with such information as the Committee may reasonably require (in such form and at such time as the Committee may reasonably require) establishing (A) that the absence from work is an absence described hereunder, and (B) the number of days for which the absence lasted;

- (iii) in no event shall more than 501 Hours of Service be credited to an Employee hereunder for any absence by reason of any one pregnancy or the placement of any one child.

Hours of Service to be credited to an individual during an absence described in this Section 2.03(f) above will be determined by the Committee with reference to the individual's most recent normal work schedule; provided that if the Committee cannot so determine the number of Hours to be credited, there shall instead be credited eight (8) Hours of Service for each day of absence.

2.04 BENEFIT SERVICE PRIOR TO JANUARY 1, 1985

With respect to employment prior to January 1, 1985, Benefit Service shall mean "Benefit Service" as defined in the Prior Plan.

2.05 BENEFIT SERVICE ON AND AFTER JANUARY 1, 1985

With respect to employment on and after January 1, 1985, Benefit Service, for purposes of determining an Eligible Employee's benefit under the Plan, means his years of Service earned as an Eligible Employee. Each Plan Year an Eligible Employee shall be credited with a year of Benefit Service provided he is credited with 2080 Hours of Service in such Plan Year. In the event an Eligible Employee does not complete 2080 Hours of Service during the Plan Year a partial year of Benefit Service (computed to the nearest 1/10th year) shall be credited by dividing his total number of Hours of Service earned as an Eligible Employee in such Plan Year by 2,080. However, an Eligible Employee shall not be credited with any Benefit Service based upon Hours of Service earned prior to his twenty-first birthday, nor shall he be credited with more than one full year of Benefit Service for any one Plan Year.

During any computation period in which an Eligible Employee's Hours of Service can not be determined, the Eligible Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes one Hours of Service.

Notwithstanding any other provisions to the contrary, Benefit Service shall be measured commencing with the date set forth in Section 3.01(b).

2.06 VETERAN'S BENEFITS

Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to qualified military service will be provided in accordance with Section 414(u) of the Internal Revenue Code.

ARTICLE 3 - PARTICIPATION

3.01 PARTICIPATION REQUIREMENTS

(a) Subject to the provisions of paragraph (b) below:

(i) Any Eligible Employee who was a Participant on December 31, 1996 shall continue to participate in the Plan as of January 1, 1997 in accordance with the provisions of this restated Plan.

(ii) Any eligible employee who has both attained age 21 and completed at least one year of Service as of the Effective Date shall become a Participant on the Effective Date.

(iii) Any other Eligible Employee shall become a Participant on the first day of the month coinciding with or next following the date on which he has both attained age 21 and completed at least one year of Service, provided he is then an Eligible employee.

(b) Notwithstanding any provision in the Plan to the contrary, Service with the entities listed below shall be taken into account in accordance with the following provisions:

(i) Effective January 1, 1989, an Eligible Employee of KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or Watts Automatic Control Valve Company shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or Watts Automatic Control Valve Company prior to January 1, 1989 shall count in determining whether such Employee has satisfied the one year of Service requirement.

(ii) Effective September 7, 1990, an Eligible Employee of Circle Seal Controls, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with Circle Seal Controls, Inc. prior to September 7, 1990 shall count in determining whether such Employee has satisfied the one year of Service requirement.

(iii) Effective January 1, 1991, an Eligible Employee of Eagle Valve Company, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with Eagle Valve Company, Inc. prior to January 1, 1991 shall count in determining whether such Employee has satisfied the one year of Service requirement.

(iv) Effective January 1, 1993, an Eligible Employee of Contromatics, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with Contromatics, Inc. prior to January 1, 1993 shall count in determining whether such Employee has satisfied the one year of Service requirement.

(v) Effective April 1, 1998, an Employee of Aerodyne Controls Corporation who became an Eligible Employee of Circle Seal Corporation on January 5, 1998 shall be eligible to participate in the Plan on the first day of the month next following the date on which he attains age 21 and completes one year of Service.

An Eligible Employee's service with Aerodyne Controls Corporation prior to January 5, 1998 shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing April 1, 1998."

(vi) Effective January 1, 1997, an employee of Consolidated Precision Corp. who became an employee of Circle Seal Controls, Inc. shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of January 1, 1997 or the date such Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Consolidated Precision Corp., prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1997.

(vii) Effective January 1, 1997, an hourly employee of Anderson Barrows Metals Corporation shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 1997 or the date such Eligible Employee meets the requirements of Section

3.01(a). Such Eligible Employee's service with Anderson Barrows Metals Corporation prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1997.

(viii) Effective January 1, 1998, an hourly employee of Ames Company, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 1998 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Ames Company, Inc. prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1998.

(ix) An hourly employee of Keane Controls Corporation who became an employee of Circle Seal Controls, Inc. shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of August 31, 1995 or the date such Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Keane Controls Corporation, prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing August 31, 1995

(x) Notwithstanding the above, effective October 18, 1999, service with KF Industries, Inc., Circle Seal Controls, Inc., Aerodyne Controls Corporation, Leslie Controls, Inc. Consolidated Precision Corporation and the Industrial Products Division shall not be taken into account for any reason due to the spin-off of those entities to CIRCOR International, Inc.

- (xi) Effective January 1, 2001, an hourly employee of McCraney, Inc. (dba "Spacemaker") or Watts Heatway, Inc. (now called Watts Radiant, Inc.) shall be come an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2001 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with of McCraney, Inc. (dba "Spacemaker") or Watts Heatway, Inc. (now called Watts Radiant, Inc.) prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2001.
- (xii) Effective November 1, 2001, an hourly employee of Power Process Controls Division of Marks Controls Corporation ("PPC"). shall be come an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of November 1, 2001 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with PPC prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing November 1, 2001.
- (xiii) Effective January 1, 2002, an hourly employee of Premier Manufactured Systems, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2002 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Premier Manufactured Systems, Inc. prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2002.

3.02 PARTICIPATION UPON REEMPLOYMENT

Each Participant who is reemployed following a Break in Service pursuant to Section 2.021 shall participate as of his reemployment date provided he has met the requirements of Section 2.022.

ARTICLE 4 - RETIREMENT DATES

4.01 NORMAL RETIREMENT DATE

The Normal Retirement Date of a Participant shall be the first day of the month coinciding with or next following a Participant's attainment of Normal Retirement Age.

4.02 EARLY RETIREMENT DATE

A Participant who was hired prior to January 1, 1992 (excluding a former Participant of the Spence Plan or the Henry Pratt Plan) and who has reached his fifty-fifth birthday and has also completed at least five years of Service may elect upon written notice to the Committee an Early Retirement Date which may be the first day of any month subsequent to the date of such election and prior to his Normal Retirement Date.

Effective January 1, 1992, a Participant who was hired on or after January 1, 1992 and who has reached his fifty-fifth birthday and has also completed at least ten years of Service may elect upon written notice to the Committee an Early Retirement Date which may be the first day of any month subsequent to the date of such election and prior to his Normal Retirement Date.

4.03 DEFERRED RETIREMENT DATE

If a Participant remains in the Service of the Employer or an Affiliated Employer after his Normal Retirement Date, his Deferred Retirement Date shall be the first day of the month which coincides with or next follows the date of his actual retirement.

ARTICLE 5 - RETIREMENT BENEFITS

5.01 FORM OF NORMAL RETIREMENT BENEFIT

Except as provided in Section 5.02, a Participant's Normal Retirement Benefit under the Plan shall be an annuity for life, payable monthly, commencing on the Participants' Normal Retirement Date (as defined in Section 4.01) and terminating with the monthly payment preceding his death.

5.02 SPOUSE JOINT AND SURVIVOR ANNUITY

In lieu of the life annuity payable under Section 5.01, a Participant who is married on his Benefit Commencement Date shall receive his retirement benefit in the form of a Spouse Joint and Survivor Annuity as described in Section 5.021, provided he has not made an election under Section 5.022 to have his benefit paid under the life annuity form described in Section 5.01 or under an optional form described in Section 5.051 or Article 8.

5.021 AMOUNT OF SPOUSE JOINT AND SURVIVOR ANNUITY

The Spouse Joint and Survivor Annuity shall be a reduced amount payable to a Participant for his lifetime with provision for continuation of 50% of such reduced amount to the Participant's spouse for the duration of the spouse's lifetime after the death of the Participant. All such amounts shall be the Actuarial Equivalent of the benefits set forth hereafter in this Article 5 which are payable on a single life basis.

5.022 ELECTION OUT OF SPOUSE JOINT AND SURVIVOR ANNUITY

A married Participant may elect, pursuant to Section 5.024, not to receive his benefit in the form of the Spouse Joint and Survivor Annuity by delivering to the Committee, during the election period described below, his written election to have his benefits paid under the form described in Section 5.01 or under an optional form described in Section 5.051 or Article 8. The election period with respect to the life annuity form described in Section 5.01 and the Spouse Joint and Survivor Annuity shall be a ninety (90) day period ending on the Participant's Benefit Commencement Date. The Participant may revoke such election by filing a written revocation with the Committee at any time during such election period. The election by a married Participant of an optional form described under Section 5.051 or Article 8 shall be made in accordance with the provisions of Section 5.024, and Section 5.051 or Article 8, whichever is applicable.

No fewer than 30 days and no more than 90 days before a Participant's Benefit Commencement Date, the Pension Committee shall furnish each Participant with general information on the Spouse Joint and Survivor

Annuity. Such general information shall be in writing and shall include:

- (a) The terms and conditions of the Spouse Joint and Survivor Annuity;
- (b) The Participant's right to elect, and the effect of electing, to waive the Spouse Joint and Survivor Annuity;
- (c) The rights of the Spouse;
- (d) The right to revoke, and the effect of revoking, an election to waive the Spouse Joint and Survivor Annuity;
- (e) The eligibility conditions and material features of the optional forms of payment available under the Plan;
- (f) The relative values of the optional forms of payment available under the Plan; and
- (g) Such other information as may be required under applicable regulations.

The Committee shall also furnish the Participant, upon his written request made within sixty (60) days following the date he is furnished such general information, additional information explaining the financial effect upon his pension (in terms of dollars per pension payment) of making such election. Such additional information shall be furnished to the Participant within thirty (30) days following the date the Participant's written request is received by the Committee.

The notice described above is not required if the Actuarial Equivalent value of the Participant's nonforfeitable Accrued Benefit is less than or equal to \$3,500 (\$5,000 effective October 1, 2001) on the Participant's Benefit Commencement Date.

The Benefit Commencement Date for a distribution in a form other than a Qualified Joint and Survivor Annuity may be less than 30 days after receipt of the written explanation described in the preceding paragraph provided: (a) the Participant has been provided with information that clearly indicates that the Participant has at least 30 days to consider whether to waive the Qualified Joint and Survivor Annuity and elect (with spousal consent) to a form of distribution other than a Qualified Joint and Survivor Annuity; (b) the Participant is permitted to revoke any affirmative distribution election at least until the Benefit Commencement Date or, if later, at any time prior to the expiration of the 7-day period that begins the day after the explanation of the Qualified Joint and Survivor Annuity is provided to the Participant' and (c) the Benefit Commencement Date is a date after the date the written explanation was provided to the Participant.

5.024 SPOUSAL CONSENT REQUIRED

Notwithstanding anything herein to the contrary, the election by a married Participant of an optional form described in Article 8 or Section 5.051 or the normal form described in Section 5.01 shall not take effect unless:

- (a) his surviving spouse consents in writing to such an election, such election specifies the Beneficiary and the form of benefit payment elected by the Participant in lieu of the Spouse Joint and Survivor Annuity, and such consent acknowledges the effect of such election and is witnessed by a Plan representative or a notary public; or
- (b) it is established to the satisfaction of the Committee that the consent required under (a) above may not be obtained because there is no spouse or the spouse cannot be located, or the Participant can show by court order that he is legally separated from his spouse or has been abandoned by the spouse with the meaning of local law, or because of other circumstances as the Secretary of the Treasury may prescribe.

Any consent by a spouse under (a) above, or a determination by the Committee with respect to such spouse under (b) above, shall be effective only with respect to such spouse.

5.03 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR REGTROL, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Regtrol, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the

following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	-----	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

With regard to an hourly employee of the Jameco Industries, Inc. who was a participant in the Local 888 Pension Fund Plan and who on or after January 1, 1997 transferred to Regtrol, Inc. (Transferred Jameco Participants), the following provisions shall apply:

(a) The benefit formula set forth in the preceding paragraph shall apply to Transferred Jameco Participants who are vested under the Local 888 Pension Fund Plan at the time of transfer with regard to Benefit Service commencing on the transfer date.

(b) With regard to Transferred Jameco Participants who are not vested under the collectively bargained multi-employer plan at the time of transfer, such Participants will be credited with benefit service with Jameco Industries, Inc. while a participant in the Local 888 Pension Fund Plan prior to the transfer date based upon the definition of Benefit Service set forth in Section 2.05. The benefit formula set forth in the preceding paragraphs shall apply with regard to such Benefit Service earned prior to the transfer and Benefit Service with the Employer commencing on the transfer date.

5.0301 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR WEBSTER VALVE DIVISION EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee in the Webster Valve Division and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the Participant's Normal Retirement Date determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 1, 2001	\$ 13.50
October 1, 2001	-----	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.0302 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR WEBSTER FOUNDRY DIVISION EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee in the Webster Foundry Division and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 1, 2001	\$ 13.50
October 1, 2001	-----	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.0303 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR KF INDUSTRIES, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee in KF Industries, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 18, 1999	\$ 13.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997. Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by KF Industries, Inc. were transferred to and assumed by CIRCOR International Inc.

5.0304 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR LESLIE CONTROLS, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Leslie Controls, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 18, 1999	\$ 13.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997. Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Leslie Controls, Inc. were transferred and assumed by CIRCOR International Inc.

5.0305 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR RUDOLPH LABRANCHE, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Rudolph LaBranche, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		Benefit Rate
On or After	But Before	
January 1, 1997	October 1, 2001	\$ 13.50
October 1, 2001	-----	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.0306 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR WATTS AUTOMATIC CONTROL VALVE, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Watts Automatic Control Valve, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	-----	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.0307 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR CIRCLE SEAL CONTROLS, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Circle Seal Controls, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 18, 1999	\$ 15.00

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Circle Seal Controls, Inc. were transferred and assumed by CIRCOR International Inc.

5.0308 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR EAGLE VALVE COMPANY, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who was an Eligible Employee of Eagle Valve Company, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 18, 1999	\$ 13.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Eagle Value Company, Inc. were transferred and assumed by CIRCOR International Inc.

5.0309 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR CONTROMATICS, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who was an Eligible Employee of Contromatics, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 18, 1999	\$ 13.50

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Contromatics, Inc. were transferred and assumed by CIRCOR International Inc.

5.0310 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR ANDERSON-BARROWS EMPLOYEES

Subject to the provisions of 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Anderson-Barrows Metals Corporation and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	-----	\$ 15.00

5.0311 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR AMES COMPANY EMPLOYEES

Subject to the provisions of 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Ames Company, Inc. who became an Eligible Employee under this Plan and who retires under this Plan shall be equal to the number of

years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 1998	October 1, 2001	\$ 13.00
October 1, 2001	-----	\$ 15.00

5.0312 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR AERODYNE CONTROLS CORPORATION EMPLOYEES

Subject to the provisions of 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Aerodyne Controls Corporation, Inc. who became an Eligible Employee under this Plan and who retires under this Plan shall be equal to the number of years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
April 1, 1998	October 18, 1999	\$ 13.00

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Aerodyne Controls Corporation, Inc. were transferred and assumed by CIRCOR International Inc.

5.0313 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR MCCRANEY, INC. (DBA "SPACEMAKER") OR WATTS RADIANT, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of McCraney, Inc. (dba "Spacemaker") or Watts Radiant, Inc. (formerly called Watts Heatway, Inc.) and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 2001	October 1, 2001	\$ 13.00 - McCraney.
		\$ 13.50 - Watts Radiant
October 1, 2001	-----	\$ 15.00

5.0314 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR PREMIER MANUFACTURED SYSTEMS INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Premier Manufactured Systems Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

DATE OF LAST HOUR OF SERVICE		BENEFIT RATE
ON OR AFTER	BUT BEFORE	
January 1, 2002	-----	\$ 15.00

5.04 MAXIMUM ANNUAL BENEFIT

(a) For Plan Years beginning after 1986, the actual or projected annual amount of a Participant's benefit payable within a Limitation Year shall not exceed the lesser of (i) and (ii) below:

(i) \$90,000, or

(ii) 100% of the Participant's average annual Section 415 Compensation (as defined in paragraph (c) below) for the three consecutive calendar years (or, if his period of employment is less than three years, for his entire period of employment) as a Participant during which he received the greatest aggregate Section 415 Compensation;

(b) In no event shall the limitations in paragraph (a) above be less than \$10,000 if the Participant has not at any time participated in a defined contribution plan maintained by the Employer or an Affiliated Employer.

(c) The term "Section 415 Compensation" means wages, salaries, and fees for professional services and other amounts received from the Employer and all Affiliated Employers during the Limitation Year (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer, to the extent such amounts are includable in gross income, including, but not limited to, overtime pay, tips, bonuses, commissions to paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, fringe benefits, reimbursements, and expense allowances, and excluding the following:

(i) amounts contributed by the Employer or Affiliated Employer on behalf of the Employee pursuant to a salary deferral agreement under this Plan or any other cash or deferred arrangement described in Section 401(k) of the Code, to any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code, or to any other plan of deferred compensation, and which are not includable in the Employee's gross income for the taxable year in which contributed, or any distributions from a plan of deferred compensation;

(ii) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Employee either becomes free transferable or is no longer subject to a substantial risk of forfeiture;

(iii) amounts realized with respect to the sale, exchange, or other disposition of stock acquired under a qualified stock option; and

(iv) other amounts which receive special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity described in Section 403(b) of the Code (whether or not the amounts are excludable from the Employee's gross income).

For purposes of applying the limitations of this Section, the term "Section 415 Compensation" means the compensation actually paid or includable in the Employee's gross income for the Limitation Year.

Effective January 1, 1998, "Section 415 Compensation" shall include (i) any elective deferral as defined in Code Section 402(g)(3), and (ii) any amount which is contributed or deferred by the Employer at the election of the Employee and which is not includable in the gross income of the employee by reason of Code Section 125 or 457.

Effective January 1, 2001, "Section 415 Compensation" shall include any amounts deferred under Section 132(f)(4) of the Code.

(d) The dollar limitation described in paragraph (a)(i) above shall be increased by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code. Such adjustment factor shall be applied to all Participants, including Participants and Beneficiaries receiving benefits from the Plan and to such items as the Secretary shall prescribe.

(e) If the benefit payable to a Participant commences prior to the Participant's Social Security Retirement Age, but on or after the date he attains age 62, the maximum annual amount determined under paragraph (a)(i) above shall be reduced as follows:

(i) if the Participant's Social Security Retirement Age is 65, by 5/9ths of 1% for each month by which the commencement of payment of his benefits precedes the month in which he attains age 65; or

(ii) if the Participant's Social Security Retirement Age is 66 or 67, by 5/9ths of 1% for each of the first 36 months and 5/12ths of 1% for each additional month by which the commencement of payment of his benefits precedes the month in which he attains his Social Security Retirement Age.

If the benefit payable to a Participant commences before age 62, the maximum annual amount determined under paragraph (a)(i) above shall be reduced in accordance with applicable regulations, so that it is the Actuarial Equivalent of such amount as applied to a benefit beginning at age 62. For purposes of this paragraph, Actuarial Equivalent shall be determined using the assumptions specified in Section 1.01(b).

For purposes of this paragraph (e), if the benefit is paid in a contingent annuity form (with the Participant's spouse as beneficiary) or in the Spouse Joint and Survivor Annuity form of payment, the benefit shall be treated as if it were paid in the normal form of payment and no adjustment in the maximum benefit need be made.

(f) If the payment of benefits to a Participant commences after his Social Security Retirement Age, the maximum annual amount determined under paragraph (a)(i) above shall be increased so that it is the Actuarial Equivalent of a \$90,000 benefit multiplied by the adjustment factor specified in paragraph (e) above, and payable in the normal form at the Participant's Social Security Retirement Age. For purposes of this paragraph, Actuarial Equivalent shall be determined using the assumptions specified in Section 1.01(b).

(g) The annual benefit is a retirement benefit under the Plan which is payable annually in the form of a single life annuity. If the benefit payable to a Participant is not in the form of a single life annuity nor in the form of a Spouse Joint and Survivor Annuity, then the maximum annual amount determined under paragraph

(a) above shall be reduced in accordance with the applicable regulations so that it is the Actuarial Equivalent of such amount as payable in the normal form. For purposes of this paragraph, Actuarial Equivalent shall be determined using the assumptions specified in Section 1.01(b).

(h) If the Participant has completed less than 10 years of Plan participation, the maximum annual amount determined under paragraph (a)(i) above shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Plan participation (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.

(i) If the Participant has completed less than 10 years of Service, the maximum amount determined under Section paragraph (a)(ii) above (without regard to paragraph (a)(i) above) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Service (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.

(j) In no event shall the provisions of paragraph (h) or paragraph (i) above reduce the limitations in paragraph (a) to an amount less than one-tenth of such limitations, determined without regard to the provisions of paragraph (h) and paragraph (i).

(k) If a Participant is, or has ever been, covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's annual benefits from all such plans may not exceed the maximum permissible amount.

5.041 LIMITATION APPLICABLE TO DEFINED CONTRIBUTION PLAN PARTICIPANTS

(a) If a Participant is also a participant in any defined contribution plan maintained by the Employer or an Affiliated Employer, the sum of the defined benefit plan fraction and the defined contribution plan fraction for any year shall not exceed 1.0 as provided in Section 415(e) of the Code and any regulations issued thereunder.

(b) The DEFINED BENEFIT FRACTION for any Limitation Year is a fraction, the numerator of which is the sum of the Participant's projected annual benefits under all defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of 1.25 times the dollar limit determined under Sections 415(b) and 415(d) of the Code and adjusted in accordance with Section 5.04(h) and (i) for the Limitation Year, or 1.4 times 100% of the Participant's highest average annual Section 415 Compensation (including any adjustments under Section 415(b) of the Code) for any three consecutive years.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986 in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 1.25 times the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 of the Code for all Limitation Years beginning before January 1, 1987.

(c) The DEFINED CONTRIBUTION PLAN FRACTION for any Limitation Year is a fraction, the numerator of which is the sum of the annual additions to the Participant's accounts under all defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years (including the annual additions attributable to the Participant's nondeductible employee contributions to all defined benefit plans, whether or not terminated, maintained by the Employer, and the annual additions attributable to all welfare benefit funds, as defined in Section 419(e) of the Code, and individual medical accounts, as defined in Section 415(l)(2) of the Code, maintained by the Employer), and the denominator of which is the sum of the maximum aggregate amounts for the current and all prior Limitation Years of service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer). The maximum aggregate amount in any Limitation Year is the lesser of 1.25 times the dollar limitation determined under Sections 415(b) and 415(d) of the Code in effect under Section 415(c)(1)(A) of the Code, or 35% of the Participant's Section 415 Compensation (as defined in Section 5.04(c)) for such Limitation Year.

For purposes of calculating the numerator in the defined contribution plan fraction, a Participant's after-tax payroll deduction contributions made before 1987, if any, shall be taken into account to the extent such contributions exceed the lesser of:

- (i) 6% of the Participant's Section 415 Compensation (as defined in Section 5.04(c)) for the Limitation Year, or
- (ii) 50% of the amount of such payroll deduction contributions for the Limitation Year.

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0 times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the

fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

(d) For the purpose of determining the denominators in the preceding two fractions, the maximum benefit allowable and the maximum annual additions shall be deemed to be equal to the lesser of:

(i) 140% of the percentage limits, or

(ii) 125% of the dollar limits provided in Sections 415(b) and 415(c) of the Code for each such year.

(e) Any adjustment necessary to comply with the limitations of this section shall be made in the Participant's benefit payable under the relevant defined benefit plan; but under no circumstances may the accrued benefit of a Participant in a defined benefit plan decrease as a result of a Plan amendment to change the combined plan limits.

(f) Effective January 1, 2001, the provisions of this Section 5.041

shall no longer be effective.

5.042 AFFILIATED EMPLOYERS

For purposes of Sections 5.04 and 5.041, the Employer and all Affiliated Employers shall be considered one employer, and the limitations shall be applicable to the total benefits received from the Employer and all Affiliated Employers. Further, in determining what is an Affiliated Employer for the purposes of these Sections, the phrase "more than 50%" shall be substituted for "at least 80%" each place it appears in Section 1563(a)(1) of the Code.

5.05 EARLY RETIREMENT BENEFIT

The Early Retirement Benefit of a Participant who elects to retire on an Early Retirement Date (as defined in Section 4.02) on or after January 1, 1985 shall be the benefit computed in (a) or (b) below, as elected by the

Participant:

(a) a benefit commencing on his Normal Retirement Date (as defined in Section 4.01) in an amount equal to his accrued Normal Retirement Benefit determined in accordance with the provisions of Section 5.03, 5.031, 5.032, 5.033, 5.034, 5.035, 5.036, 5.037, 5.038, or 5.039, whichever is applicable, based on his years of Benefit Service (including fractions thereof) and the rate of benefit in effect as of his Early Retirement Date;

(b) a reduced benefit commencing on his Early Retirement Date or the

first day of any month thereafter but prior to his Normal Retirement Date, as elected by the Participant, which benefit shall be computed as in (a) above, reduced by 5/9 of 1% for each of the first sixty months by which commencement of benefits precedes his Normal Retirement Date, and by 5/18 of 1% for each month thereafter, if any, by which commencement of benefits precedes his Normal Retirement Date.

5.051 SOCIAL SECURITY OPTION

A Participant who is entitled to receive an Early Retirement Benefit and has elected to have such benefit commence prior to the date he is entitled to receive benefits under Title II of the Social Security Act, may elect to receive a Social Security Option under which he will receive a larger monthly benefit prior to the date he is first entitled to receive benefits under Title II of the Social Security Act and a smaller benefit after he is first entitled to receive benefits under Title II of the Social Security Act so that, to the extent possible, the Participant will receive a level monthly income when his payments under the Plan and his income under Title II of the Social Security Act are taken into account; provided, however, that his payments under the Social Security Option will be the Actuarial Equivalent of the Early Retirement Benefit he would have received if he had not elected such an option.

If a Participant elects a benefit under this Section, no benefits will be payable to anyone upon his death.

5.06 DEFERRED RETIREMENT BENEFIT

(a) RETIREMENT PRIOR TO AGE 70 1/2

Each Participant who continues in the employ of the Employer or an Affiliated Employer after attaining his Normal Retirement Age and retires prior to age 70 1/2

shall be entitled upon actual retirement to receive a monthly Deferred Retirement Benefit. The Deferred Retirement Benefit payable under this paragraph (a) shall be determined in accordance with Section 5.03, 5.031, 5.032, 5.033, 5.034, 5.035, 5.036, 5.037, 5.038, 5.039, 5.040 or 5.041, whichever is applicable, based on the Participant's years of Benefit Service (including fractions thereof) as of his retirement date, and the rate of benefit in effect under the Plan on his retirement date.

(b) COMMENCEMENT OF BENEFITS WHILE ACTIVELY EMPLOYED

Prior to January 1, 1997, the Deferred Retirement Benefit payable to a Participant who attains age 70 1/2 and who continues to be an Employee shall be equal to the Participant's accrued benefit determined as of the last day of the Plan Year in which the Participant attains age 70 1/2. The Deferred Retirement Benefit payable under this paragraph (b) shall be determined in accordance with Section 5.03 or 5.031, 5.032, 5.033, 5.034, 5.035, 5.036, 5.037, 5.038, 5.039, 5.040 or 5.041 whichever is applicable, and shall be payable in the form of a single life annuity. The Deferred Retirement Benefit shall commence no later than the January 1 immediately following the Plan Year in which the Participant attains age 70 1/2.

The monthly benefit of a Participant who has begun receiving benefits and who continues to be an Employee after his attainment of age 70 1/2 shall be adjusted, effective on the January 1 following the Plan Year in which the Participant's benefit commenced and on each succeeding January 1 prior to the Participant's Deferred Retirement Date, to reflect the effect of changes in the Participant's accrued benefit since the previous January 1. The final adjustment shall be made as of the Participant's Deferred Retirement Date. Adjustments required by this paragraph shall include a reduction equal to the Actuarial Equivalent of any payments already made with respect to the Participant. In no event, however, will the benefit payable to the Participant be reduced as a result of this paragraph. Furthermore, the operation of this paragraph will not affect the form of benefit payment previously elected by the Participant.

Any Participant, other than a 5% owner as defined in Code Section 416(i), who attains age 70 1/2 after December 31, 1996 but before January 1, 2002 shall have the option to commence receiving retirement benefits at any time commencing on or after

the January 1 following the Plan Year in which such Participant attains age 70 1/2. Any Participant, other than a 5% owner as defined in Code Section 416(i), who attains age 70 1/2 on or after January 1, 2002, shall commence receiving retirement benefits no later than the January 1, of the calendar year following the calendar year in which he attains age 70 1/2 or the calendar year in which he retires, whichever is later. Participants who are 5% owners must continue to commence receiving benefits on the January 1 following the Plan Year in which they attained age 70 1/2.

Effective January 1, 1997, a Participant's deferred Retirement Benefit shall be equal to the greater of (i) the Actuarial Equivalent of his or her Deferred Retirement Benefit determined as of April 1, of the calendar year following the calendar in which the Participant attains age 70 1/2, or (ii) the Participant's Deferred Retirement Benefit determined as of his or her Deferred Retirement Date.

Upon such Participant's actual Deferred Retirement Date, he shall then be eligible to make the election as described in Section 5.022.

5.07 SUSPENSION OF BENEFIT DISTRIBUTIONS

(a) CONDITIONS FOR SUSPENSION

If any Participant is reemployed by the Employer or an Affiliated Employer on or after his Benefit Commencement Date and before age 70 1/2, or if any Participant continues in employment with the Employer or an Affiliated Employer after his Normal Retirement Date (as defined in Section 4.01), the benefit payable for a calendar month will be permanently withheld if the Participant completes 40 or more Hours of Service in the calendar month or in the four or five week payroll period ending in the calendar month.

The benefit permanently withheld will be the actual amount scheduled to be paid for the calendar month in which the conditions for suspension are met.

(b) REDETERMINATION OF BENEFITS

Upon the subsequent termination of employment of a Participant who was eligible to begin receiving payments under the Plan on his prior termination of employment date (whether or not such benefit payments had actually commenced), the Participant's retirement benefit shall be redetermined in accordance with the provisions of this Plan applicable to him as of his subsequent termination of employment date, as if no prior benefit payments had been made. His retirement benefit, as so redetermined, shall then be reduced by (i) the Actuarial Equivalent of the benefit payments, if any, previously made to such Participant prior to his Normal Retirement Date or (ii) in the case of a lump sum payment, the Actuarial Equivalent of the payment other than the portion of the payment attributable to the period (if any) after the Participant's Normal Retirement Date and before his reemployment commencement date. The form of payment of any retirement benefit to which he may thereafter become entitled shall be determined in accordance with the provisions of Article 5 at the time he subsequently retires without regard to the form in which his benefit had previously been paid.

The Participant's retirement benefit as so redetermined shall not be less than his retirement benefit prior to the suspension of payments.

(c) RESUMPTION OF BENEFITS

In the case of a Participant who was receiving benefit payments prior to reemployment, payment of such benefits shall resume no later than the first day of the third calendar month following the month in which the Participant ceases to satisfy the conditions for suspension described in paragraph (a) above.

If the period of suspension is less than three months, the Participant's benefit shall continue to be paid in the same form of payment as was in effect before the suspension.

The amount of the Participant's benefit shall be redetermined, taking into account increased service and any benefits paid before suspension, and shall not be less than the amount of benefit the Participant was receiving prior to suspension.

(d) NOTICE OF SUSPENSION

If a Participant continues to be employed by the Employer or an Affiliated Employer after his Normal Retirement Date (as defined in Section 4.01) and the commencement of his benefit payments is delayed (or, in the case of reemployment, suspended) in accordance with the provisions of paragraph (a) above, the Committee shall give written notice to such Participant as required under Department of Labor Regulations 2530.203-3(b)(4) no later than the end of the first calendar month or payroll period in which the payment of benefits would have commenced if the Participant had not remained in or returned to employment.

5.08 RETIREMENT PRIOR TO JANUARY 1, 1985

Except as specified otherwise herein, the monthly retirement benefit of a Participant who retired from the Service of the Employer prior to January 1, 1985 shall be determined in accordance with the applicable provisions of the Prior Plan as in effect on the date of his retirement.

5.09 PARTICIPANTS WHO ATTAINED NORMAL RETIREMENT AGE OR WHO RETIRED PRIOR TO JANUARY 1, 1986

Commencing January 1, 1986, the monthly retirement benefit of an active Participant who attained Normal Retirement Age prior to January 1, 1986 or of a Retired Participant who retired prior to January 1, 1986 shall be increased by 2.5% for each year between the date such active Participant attained Normal Retirement Age or the date such Retired Participant retired and the anniversary of such date which occurs in 1986; provided that such increase in the monthly benefit shall not be less than \$10.00.

5.10 TRANSFER ADJUSTMENT TO NORMAL RETIREMENT BENEFIT

Notwithstanding the provisions under Section 5.03, in the event a Participant transfers to another subsidiary or division which provides a different benefit rate under this Plan than provided under the transferor subsidiary or division and such Participant is credited with more than 2080 Hours of Service during the Plan Year of the transfer, such

Participant's Normal Retirement Benefit will be adjusted as follows:

(a) the Participant's fractional year of Benefit Service under each benefit rate will be determined based on total Hours of Service credited for each subsidiary or division;

(b) the fraction calculated in (a) associated with the subsidiary or division with the smaller benefit rate shall be adjusted to be equal to one minus the fraction in (a) associated with the subsidiary or division with the larger benefit rate; and

(c) the fractions calculated in (b) will be multiplied by the

applicable benefit rate to provide the total benefit earned in the Plan Year of the transfer.

5.11 DISABILITY RETIREMENT BENEFITS

Effective October 1, 2001, in the event a Participant becomes disabled while employed with the Employer, so that he is receiving disability benefits under Title II of the Social Security Act, such Participant shall continue to be credited with years of Service for vesting and years of Benefit Service for the period he remains disabled and such crediting shall cease upon the earlier of the Participant's recovery from disability, death, election of Early Retirement or Normal Retirement Date. If a Participant's disability continues until his Normal retirement Date, his Normal Retirement Benefit shall commence as of the date elected by the Participant in accordance with the normal form of benefit described as Section 5.01 or 5.02, whichever is applicable, or the optional retirement benefit, if elected by the Participant as set forth in Article 5.

ARTICLE 6 - TERMINATION OF SERVICE

6.01 REQUIREMENTS FOR VESTED BENEFITS

There are no benefits payable under the Plan if a Participant's employment terminated prior to the date he is entitled to retire and receive a benefit under the Plan, except as provided in this Article 6.

6.02 VESTED BENEFITS

A Participant who completes an Hour of Service on or after January 1, 1989 and who ceases to be an Employee prior to Normal Retirement Age for any reason except death or retirement under the Plan shall be entitled to a deferred vested benefit commencing on his Normal Retirement Date (as defined in Section 4.01) equal to his accrued Normal Retirement Benefit determined in accordance with the provisions of Section 6.021 multiplied

by his vesting percentage in accordance with the following schedule:

YEARS OF SERVICE	VESTING PERCENTAGE
Less than 5 years	0%
5 years or more	100%

6.021 COMPUTATION OF A VESTED BENEFIT

The amount of deferred vested benefit payable to a Terminated Participant under Section 6.02 shall be equal to the Normal Retirement Benefit he would be entitled to under Section 5.03, 5.031, 5.032, 5.033, 5.034, 5.035, 5.036, 5.037, 5.038, 5.039, 5.040 or 5.041, whichever is applicable, based on his years of Benefit Service (including fractions thereof) and the rate of benefit in effect as of the date he last performs an Hour of Service, as an Eligible Employee

6.022 EARLY COMMENCEMENT OF A VESTED BENEFIT

A Terminated Vested Participant entitled to a Vested Benefit under Section 6.02 may elect to have such benefit commence at any time after he is eligible to elect an Early Retirement Date pursuant to Section 4.02. In such case, his benefit shall be the Actuarial Equivalent of the benefit determined under Section 6.021.

Effective January 1, 1999 a Terminated Participant entitled to a Vested Benefit under Section 6.02 may elect to have such benefit commence at any time after he reaches his fifty-fifth birthday provided he has completed at least 10 years of Service. Effective with respect to benefits commencing on or after January 1, 1999, such Participant shall be entitled to his benefit payable on his Normal Retirement reduced by $\frac{5}{9}$ of 1% for each of the first sixty months by which commencement of benefits precedes his Normal Retirement Date, and by $\frac{5}{18}$ of 1% for each month thereafter, if any, by which commencement of benefits precedes his Normal Retirement Date.

ARTICLE 7 - DEATH OF PARTICIPANT

7.01 DEATH PRIOR TO RETIREMENT

There are no death benefits payable under the Plan in the event of the death of a Participant, Retired Participant, or Terminated Participant prior to the commencement of his retirement benefits under the Plan, except as may be provided under the Surviving Spouse Benefit described in Section 7.02 or as may be provided under Section 7.04.

7.02 SURVIVING SPOUSE BENEFIT

The spouse of a Participant or a Terminated Participant shall be eligible to receive a Surviving Spouse Benefit after the Participant's or Terminated Participant's death if the Participant or Terminated Participant has fulfilled the following requirements at the date of death:

- (a) He has been legally married to such spouse throughout the twelve-month period ending on the date of his death;
- (b) He has met the requirements for a Vested Benefit under Section 6.02;

(c) He has not attained Normal Retirement Age; and

(d) He has not commenced receiving benefits under the Plan.

7.03 AMOUNT OF SURVIVING SPOUSE BENEFIT

If a Participant or Terminated Participant dies after fulfilling all the requirements of Section 7.02, his spouse shall be entitled to a lifetime benefit under the Plan. If the surviving spouse of the Participant or Terminated Participant consents, such benefit shall commence on the first day of the month following the later of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02. If such surviving spouse does not consent to receive benefits as described above, benefits shall commence on the first day of any month thereafter, as elected by the surviving spouse, but not later than the date the Participant or Terminated Participant would have attained age 65.

The Surviving Spouse Benefit shall be equal to (a), (b) or (c) below:

- (a) If the Participant or Terminated Participant dies after meeting the requirements for Early Retirement as provided under Section 4.02, the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the Participant or Terminated Participant had retired on the date preceding his date of death and he had been entitled to a Spouse Joint and Survivor Annuity;
- (b) If the Participant or Terminated Participant dies on or before meeting the requirements for Early Retirement as provided under Section 4.02, the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the Participant or Terminated Participant had:
 - (i) terminated service on the date of his death;
 - (ii) survived to the earliest retirement age under Section 4.02;
 - (iii) retired at that time and was entitled to receive a Spouse Joint and Survivor Annuity; and
 - (iv) died on the day following attainment of the earliest retirement age; or
- (c) If the Participant's or Terminated Participant's surviving spouse elects a benefit commencement date other than the first day of the month following the date of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02, the Surviving Spouse Benefit under (a) or (b) above, whichever is applicable, shall be actuarially adjusted to reflect the actual date of benefit commencement.

7.04 DEATH AFTER COMMENCEMENT OF BENEFITS OR NORMAL RETIREMENT AGE

There are no death benefits payable under the Plan upon the death of a Participant on or after his Normal Retirement Age or after a Participant has commenced receiving retirement benefits under the Plan, except as

follows:

(a) If a Participant is receiving a Spouse Joint and Survivor Annuity as described in Section 5.02, any benefits becoming due will be paid in accordance with the terms of such Spouse Joint and Survivor Annuity;

(b) If a Participant has elected an optional benefit under Article 8, any benefits becoming due will be paid in accordance with the terms of such option;

(c) If a Participant dies after attaining his Normal Retirement Age but before his Deferred Retirement Date, the Spouse Joint and Survivor Annuity as described in Section 5.02 shall be deemed to be in effect on behalf of such Participant, provided he has not made an election under Section 5.022 to receive his benefits under another form of payment.

ARTICLE 8 - OPTIONAL FORMS OF BENEFIT

8.01 TIME FOR ELECTION

Subject to the restrictions set forth in Section 8.06, in lieu of receiving the life annuity referred to in Section 5.01 or the Spouse Joint and Survivor Annuity referred to in Section 5.02, a Participant may elect, by written application filed with the Committee, to have his retirement benefit paid under one of the forms of benefit set forth in this Article 8, provided that such election is made prior to the earlier of: the Participant's actual retirement under the Plan or the Participant's required beginning date under Section 5.06 and in accordance with the procedures set forth in Section 5.024 (if such Participant is married) and in this Article 8. Neither Section 5.01 nor Section 5.02 shall apply if an effective election is made under this Article; provided, however, that a married Participant may, at any time during the election period established by the Committee under Section 5.022, rescind his election of an option under this Article 8 and receive his retirement benefit in the form of an annuity for life under Section 5.01 or a Spouse Joint and Survivor Annuity under Section 5.02 if he has met the requirements therefor.

8.02 CONTINGENT ANNUITANT OPTION

A Participant may elect an option in accordance with Section 5.02, under which option he will receive an actuarially reduced benefit during his lifetime after retirement and 100%, 66-2/3% or 50% of such reduced amount will be continued to a person designated by the Participant at the time of election of the option (and referred to as a Contingent Annuitant) for the duration of the Contingent Annuitant's lifetime.

8.03 TEN YEAR CERTAIN LIFE ANNUITY OPTION

A Participant may elect an option in accordance with Section 5.02, under which option he will receive an actuarially reduced benefit during his lifetime after retirement with a provision that if he dies after his Normal Retirement Age or after his Benefit Commencement Date but prior to receiving one hundred twenty monthly retirement payments, the balance of such one hundred twenty monthly retirement payments shall be paid to the Participant's Beneficiary.

8.04 WHEN OPTION EFFECTIVE

If a Participant who elects an option under this Article 8 dies prior to Normal Retirement Age or prior to his Benefit Commencement Date, if earlier, the election shall be void and no benefit will be paid under the option. If the Participants Contingent Annuitant, or Beneficiary if applicable, dies prior to the commencement of retirement benefits to the Participant and prior to the Participant's Normal Retirement Age, the Participant may either (a) designate another Contingent Annuitant, or Beneficiary, if applicable, prior to his Normal Retirement Age, (b) receive the form of benefit at retirement which would have been payable to him had the option not been elected, or (c) elect another optional form of benefit under Article 8. Notwithstanding the first sentence of this Section 8.04, if the Participant has elected a Deferred Retirement Date (as defined in Section 4.03), and if the Participant dies after his Normal Retirement Date (as defined in Section 4.01) but before his Deferred Retirement Date, the Contingent Annuitant shall receive the reduced amount of retirement benefit payable under the option. If the Participant has elected a Deferred Retirement Date, and if either the Contingent Annuitant or Beneficiary, if applicable, dies after the Participants Normal Retirement Date but before his Deferred Retirement Date, the election shall be void and the Participant will receive the benefit which would have been payable to him had the option not been elected, unless another option is elected.

8.05 BENEFICIARY

A Participant who elects an option under Section 8.03 shall designate, on a form provided by the Committee, a Beneficiary or Beneficiaries to receive any death benefit which may become payable under the designated option. The Participant may change his designation of Beneficiary from time to time by written notice filed with the Committee. If no designated Beneficiary survives to receive all benefits which may become due under the Plan, any such benefits becoming due shall be paid to any one or more of the following classes of successive Beneficiaries surviving the Participant: the Participant's (a) spouse, (b) issue, (c) parents, (d) brothers and sisters, or (e) executors and administrators.

8.06 LIMITATION OF ELECTION OF OPTION

No option shall be effective under this Article if the anticipated effect would be to extend the period of payments beyond the joint life expectancy of the Participant and his Contingent Annuitant or Beneficiary; or would violate the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations, or any provision of future law that amends, supplements, or supersedes such provision.

8.07 SPOUSAL CONSENT REQUIREMENT

Notwithstanding anything herein contained to the contrary, the election by a married Participant of an optional form of benefit shall not take effect unless the requirements set forth in Section 5.024 have been satisfied.

ARTICLE 9 - CHANGE IN STATUS AND TRANSFER

9.01 CHANGE IN STATUS FROM ELIGIBLE EMPLOYEE TO NON-ELIGIBLE EMPLOYEE

If a Participant is included in this Plan for a part of his period of employment with the Employer or an Affiliated Employer and then loses his status as an Eligible Employee, as defined in this Plan, he will not accrue any further benefits under this Plan; however, all Service with the Employer or an Affiliated Employer will be taken into account in determining his eligibility rights to receive any benefits previously accrued under this Plan.

In the event an Employee loses his status as an Eligible Employee, his benefit shall be determined using the benefit rate in effect on the date he ceases to be an Eligible Employee. If the Employee's status again changes and he becomes an Eligible Employee and a Participant under the Plan, his years of Benefit Service as an Eligible Employee shall be aggregated and his benefit shall be determined using the benefit rate in effect on the latest date on which he ceases to be an Eligible Employee.

9.02 CHANGE IN STATUS FROM NON-ELIGIBLE EMPLOYEE TO ELIGIBLE EMPLOYEE

If a Participant is included in this Plan after a period of Service with the Employer when he was not an Eligible Employee, as defined in this Plan, all his Service with the Employer or an Affiliated Employer will be counted only for purposes of determining his eligibility to participate in the Plan and his rights to receive benefits under this Plan.

9.021 NON-DUPLICATION OF BENEFITS

If benefits are payable on account of the same period of employment with the Employer or an Affiliated Employer, under this Plan and another qualified defined benefit plan toward which the Employer contributes (or has contributed), the benefits payable under this Plan on account of such period shall be reduced by the Actuarial Equivalent of any benefit payable to him under such other plan calculated in the same form and manner as is the benefit payable under this Plan on account of the same period of Service. However, if such other Plan provides for a similar reduction of benefits, then this Section shall be disregarded with respect to an Eligible Employee whose most recent period of participation in this Plan is earlier than his most recent period of participation in such other plan.

9.03 TRANSFER IN EMPLOYMENT

For purposes of determining vested benefits and eligibility, a direct transfer in employment between the Employer and a wholly owned subsidiary of the Employer, whether or not it adopts the Plan, shall not be deemed to effect any break in Service as to the Eligible Employee or Participant so transferring, as long as he retains his status as an Eligible Employee with such subsidiary. His Benefit Service with such subsidiary prior to the date of its adoption of the Plan shall be counted for purposes of the Plan to the extent specified in the vote of the board of directors of such subsidiary adopting the Plan. The Eligible Employee or Participant shall not lose his right to any Benefit Service he had accrued with the Employer prior to the date of his transfer in employment to the subsidiary, provided that there shall be no duplication in benefits based on such Benefit Service.

9.031 EMPLOYMENT WITH AN AFFILIATED EMPLOYER

For purposes of determining a Participant's eligibility to participate in the Plan and his right to a Vested Benefit under Section 6.02, any employment with an Affiliated Employer shall be treated as Service with the Employer; such Service to be determined by the Committee in accordance with the Service provisions of Article 2 applied in a uniform, nondiscriminatory manner to all Participants and to be based on the employment records of the Affiliated Employer. In no event shall a person who has completed such Service enter the Plan prior to his employment with the Employer or accrue any benefits under the Plan in respect of such Service, except as provided in Section 9.03.

ARTICLE 10 - ADMINISTRATION

10.01 ALLOCATION OF RESPONSIBILITY AMONG FIDUCIARIES FOR PLAN AND TRUST ADMINISTRATION

The Fiduciaries shall have only those powers, duties, responsibilities and obligations as are specifically given to them under this Plan or the Trust. Any power, duty, responsibility or obligation relating to the control, management, or administration of the Plan or Trust Fund which is not specifically allocated to any Fiduciary, or with respect to which the allocation is in doubt, shall be deemed allocated to the Employer. In general, the Employer shall have the sole responsibility for making the contributions, as specified in Article 11 and subject to the provisions of Article 11, necessary to provide benefits under the Plan. The Sponsoring Employer by action of its Board shall have the sole authority to appoint and remove the Trustee and the members of the Committee and to amend or terminate, in whole or in part, this Plan and the Trust. The Committee shall have the sole responsibility for the administration of this Plan, as specifically described in this Plan and the Trust. The Trustee shall have the sole responsibility for the administration of the Trust and the management of the Trust assets, except as otherwise specifically provided in this Plan and the Trust.

The Sponsoring Employer, by written instrument filed with the records of the Plan, may designate fiduciary capacities and/or Fiduciaries other than those named herein. A Fiduciary may serve in more than one fiduciary capacity in respect to the Plan. A Fiduciary shall have the authority to delegate responsibilities, as provided above, and may employ one or more parties to render advice with regard to any responsibility he has under the Plan.

10.02 INDEMNIFICATION

The Employer shall indemnify each member (and former member) of the Committee and any other employee, officer or director (and former employee, officer or director) of the Employer against any claims, loss, damage, expense and liability (other than amounts paid in settlement not approved by the Employer) reasonably incurred by him in connection with any action or failure to act to which he may be party by reason of his membership on the Committee or performance of an authorized duty or responsibility for or on behalf of the Employer pursuant to the Plan or Trust unless the same is determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Employer shall be made only to the extent (a) such expense or liability is not payable to or on behalf of

such person under liability insurance coverage; and (b) the Trust is precluded from assuming such expense or liability because of the operations of ERISA Section 410 or other applicable law. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

10.03 APPOINTMENT OF COMMITTEE

The Plan shall be administered by a Committee consisting of at least three (3) persons who shall be appointed by and serve at the pleasure of the Board. A person who is selected as a member of the Committee also may serve in one or more other fiduciary capacities with respect to the Plan and may be a Participant. The Board shall have the right to remove any member of the Committee at any time, and a member may resign at any time by written resignation to the Board. The Board may fill by appointment any vacancy in the membership of the Committee. All usual and reasonable expenses of the Committee incurred by them in the administration of the Plan and Trust, including but not limited to fees and expenses of professional advisors referred to above, shall be paid by the Trust Fund unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any such expenses. Any members of the Committee who are full-time employees of the Employer shall not receive compensation with respect to their services as a member of the Committee.

10.04 RECORDS AND REPORTS

The Committee shall exercise such authority and responsibility as it deems appropriate in order to comply with the Code, ERISA, and governmental regulations issued thereunder relating to records of Participants, Service and Benefit Service, benefits, notifications to Participants, annual registration with the Internal Revenue Service, and annual reports to the Department of Labor. The Employer and the Committee shall each keep or cause to be kept such Employee and Participant data and other records, and shall each reasonably give notice to the other of such information, as shall be proper, necessary or desirable to effectuate the purpose of the Plan. Neither the Employer nor the Committee shall be required to duplicate any records kept by the other.

10.05 OTHER COMMITTEE POWERS AND DUTIES

The Committee shall have such duties and powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following:

- (a) To construe and interpret the Plan, including the supplying of any omissions in accordance with the intent of the Plan, decide all questions of eligibility, determine the amount, manner and time of payment of any benefits hereunder, and to authorize the payment of benefits;
- (b) To prescribe forms and procedures to be followed by the Participants, spouses, and Beneficiaries filing applications for benefits;
- (c) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan;
- (d) To receive from the Employer and from Participants such information as shall be necessary for the proper administration of the Plan;
- (e) To furnish the Employer, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate;
- (f) To receive, review and keep on file (as it may deem convenient or proper) reports of the financial condition, and of the receipts and disbursements, of the Trust Fund from the Trustee;
- (g) To appoint, employ or designate individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal and actuarial counsel;
- (h) To make such equitable and practical adjustments as may be necessary to correct mistakes of fact or other errors; and
- (i) To authorize amendments of the Plan by a Company officer, provided such amendments are of a non-substantive nature and do not significantly increase the cost of the Plan; and
- (j) To exercise such other powers and duties as the Board may delegate to it.

The Committee may retain auditors, accountants, physicians, actuaries, legal counsel and other professional advisors selected by it. The opinion of, or information and data contained in any certificate or report or other material prepared by any such auditor, physician, actuary, accountant, legal counsel, or other professional advisors shall be full and complete authority and protection in respect of any action taken, suffered or omitted by the Committee or other Fiduciary in good faith and in accordance with such opinion or information and no member of the Committee or other Fiduciary shall be deemed imprudent by reason of any such action.

10.06 RULES AND DECISIONS

The Committee may adopt such rules as it deems necessary, desirable or appropriate for the proper and efficient administration of the Plan and as are consistent with the provisions of the Plan. Rules and decisions of the Committee shall not discriminate in favor of officers, directors, or Highly Compensated Employees of the Employer. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished by a Participant, spouse, Contingent Annuitant or Beneficiary, the Employer, the legal counsel of the Employer, an Actuary, consultant, or the Trustee. The Committee shall have and shall exercise complete discretionary authority to construe, interpret and apply all of the terms of the Plan, including all matters relating to eligibility for benefits, amount, time or form of benefits, and any disputed or allegedly doubtful Plan terms. Any such construction, administration, interpretation or application shall be final, binding and conclusive upon all persons including, but not by way of limitation, Employees, Participants, spouses, Contingent Annuitants, Beneficiaries, and their heirs, and personal representatives, and any other person claiming an interest under the Plan and shall not be deemed imprudent. In exercising such discretion, the Committee shall give controlling weight to the intent of the Plan.

10.07 COMMITTEE PROCEDURES

The Committee may act at a meeting or in writing without a meeting. All decisions of the Committee shall be made by the vote of the majority including actions in writing taken without a meeting. The Committee may adopt such operating procedures and regulations as it deems desirable for the conduct of its affairs and may authorize a member, or each member, of the Committee to act on its behalf in certain administrative matters deemed by them to be routine in nature, including the execution of documents. No Committee member

who is a Participant shall have any vote in any decision of the Committee made uniquely with respect to such Committee member or his benefits hereunder.

10.08 AUTHORIZATION OF BENEFIT PAYMENTS

The Committee shall issue directions to the Trustee concerning all benefits which are to be paid from the Trust Fund pursuant to the provisions of the Plan, and certify that all such directions are in accordance with the Plan.

10.09 APPLICATION AND FORMS FOR PAYMENT

The Committee shall require a Participant to complete and file with the Committee an application for distribution of benefits and all other forms approved by the Committee for the purpose and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information furnished to it, including the Participant's current mailing address. To the extent that the Committee shall prescribe forms for use by the Participants, former Participants, and their respective spouses, Contingent Annuitants, or Beneficiaries in communicating with the Employer or the Committee, as the case may be, and shall establish periods during which communications may be received, they and the Employer shall respectively be protected in disregarding any notice or communication for which a form shall so have been prescribed and which shall not be made on such form and any notice or communication for the receipt of which a period shall so have been established and which shall not be received during such period, or in accepting any notice or communication which shall not be made on the proper form and/or received during the proper period. The Employer and the Committee shall respectively also be protected in acting upon any notice or other communication purporting to be signed by any person and reasonably believed to be genuine and accurate, and shall not be deemed imprudent by reason of so doing.

10.10 CLAIMS PROCEDURE

The Committee shall notify each Participant of his entitlement to receive benefits under this Plan, and shall provide appropriate forms on which application for such benefits may be made.

Each Participant, spouse, Contingent Annuitant, or Beneficiary claiming a benefit under the Plan must complete and file such application forms with the Committee. One Committee

member (or his designee) shall be designated to review all applications for benefits. He shall notify the claimant in writing of his decision within ninety (90) days of his receipt of the application. If special circumstances require any extension of time (not to exceed ninety (90) days) for processing the claim, the claimant will be notified in writing of the extension prior to the expiration of the initial ninety (90) day period.

The reviewing member of the Committee shall make all determinations on behalf of the Committee as to the right of any person to a benefit. Any denial by the reviewing Committee member of a claim for benefits shall be stated in writing and delivered or mailed to the claimant. The notice shall be written to the best of the reviewing Committee member's ability in a manner that may be understood without legal or actuarial counsel. Such notice shall set forth specific reasons for the denial, specific references to the pertinent Plan provisions on which the denial is based, an explanation of the Plan's claim review procedure, and, if applicable, a description of additional material or information necessary for the claimant to perfect his claim. If the reviewing Committee member rejects the application solely because the claimant failed to furnish certain necessary material or information, the notice shall explain what additional material is needed and why, and advise the claimant that he may refile a proper application under the above claim procedure.

10.11 APPEAL AND REVIEW PROCEDURE

If a claim has been denied by the reviewing Committee member, the claimant may appeal the denial within sixty (60) days after his receipt of written notice thereof by submitting in writing to the Committee a request for review of the denial of such claim. A claimant may also submit a written statement of issues and comments concerning his claim, and he may request an opportunity to review the Plan, the Trust and any other pertinent documents (which shall be made available to him by the Committee within thirty (30) days after its receipt of a copy of the request) at a convenient location during regular business hours.

If an appeal is made, the Committee shall render its final decision with the specific reasons therefor in writing and transmit it to the claimant by certified mail within 60 days of its receipt of the request for review (or within 120 days in the event a hearing is granted).

All interpretations, determinations, and decisions of the Committee or its designated representative with respect to any matter herein will be final, conclusive, and binding upon all interested parties.

10.12 EVIDENCE

Evidence required of anyone under the Plan may be given by certificate, affidavit, document or in such other form as the person to whom such evidence is given considers appropriate.

ARTICLE 11 - FUNDING OF THE PLAN

11.01 MEDIUM OF FUNDING

The Plan will be funded through one or more Trust Funds established by the Employer.

11.02 CONTRIBUTIONS

The Employer shall make such contributions to the Trust Fund from time to time as may be necessary to maintain the Plan on a sound actuarial basis and meet the funding requirements of the ERISA. In determining such contributions, the earnings of the Trust Fund and any amounts forfeited by Terminated Participants shall be considered as a part of the Trust Fund in establishing the cost of maintaining the Plan.

11.03 FUND TO BE FOR THE EXCLUSIVE BENEFIT OF PARTICIPANTS

The contributions made to the Trust Fund by the Employer under the Plan shall be for the exclusive benefit of Participants, Retired Participants, and Terminated Participants, and no part of the Trust Fund shall revert to the Employer, except such amounts as may remain after the satisfaction of all liabilities to Participants, Retired Participants, Terminated Participants, surviving spouses, Contingent Annuitants, and Beneficiaries upon termination of the Plan.

11.04 FORFEITURES

All amounts forfeited by Terminated Participants shall be used to reduce the Employer's cost of the Plan, and shall not be used to increase the benefits of other Participants under the Plan.

11.05 INTERESTS OF PARTICIPANTS IN TRUST FUND

No Participant shall have any right, title or interest in any part of the assets of any Trust Fund except as and to the extent expressly provided by the Plan.

11.06 PAYMENT OF EXPENSES

It is intended that the administrative and all other expenses of the Plan shall be paid by the Trust Fund, unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any such expenses.

ARTICLE 12 - PAYMENT OF RETIREMENT BENEFITS

12.01 PAYMENT OF SMALL AMOUNTS

In the event that the Actuarial Equivalent value of any benefits under the Plan would be \$3,500 (\$5,000 effective October 1, 2001) or less (or such other amount as provided by applicable law or regulation) on the date of distribution, the Committee shall authorize the payment of such Actuarially Equivalent amount in a lump sum.

12.02 DEEMED DISTRIBUTION

If the Actuarial Equivalent of the vested portion of a Participant's accrued benefit is zero, the Participant shall be deemed to have received a single sum distribution of the vested portion of his accrued benefit on his date of termination of employment and the nonvested portion of his accrued benefit shall thereupon be forfeited. If such Participant resumes employment covered under the Plan before the date he incurs a break in Service on or after January 1, 1985 which equals or exceeds the greater of five years or the number of years of Service which the Employee completed prior to the break in Service, the nonvested portion of the accrued benefit forfeited pursuant to this Section 12.02 shall be restored on the Participant's date of employment.

12.03 PAYMENTS FOR INCAPACITATED PERSONS

Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit, or installment thereof, hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his financial affairs, the Committee may direct the Trustee to make payments to the legal representative of such person. Any payment of a benefit or installment thereof in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

If any Beneficiary of any Participant or former Participant shall be a minor, the Trustee shall be fully protected in making any payment required to be made to such minor to any person who shall be a custodian or guardian for such minor.

12.04 SPENDTHRIFT

Except as provided in Section 12.05, no benefit payable at any time under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer, assignment, pledge, attachment or encumbrance of any kind. No benefit and no Trust Fund established in connection with the Plan shall in any manner be subject to the debts or liabilities of any person entitled to such benefit. Effective August 5, 1997, the Plan shall recognize judgements or settlements described in Sections 401(a)(13)(C) and (D) of the Code.

12.05 PAYMENT UNDER QUALIFIED DOMESTIC RELATIONS ORDERS

Notwithstanding any provision of the Plan to the contrary, if there is entered any qualified domestic relations order (within the meaning of Section 414(p) of the Code and ERISA Section 206(d)(3)(B), as added by the Retirement Equity Act of 1984) that affects the payment of benefits hereunder, such benefits shall be paid in accordance with the applicable requirements of such order.

12.06 LATEST COMMENCEMENT OF BENEFITS

- (a) In no case, unless the Participant otherwise elects in accordance with Section 401(a)(14) of the Code and the Treasury Regulations promulgated thereunder, will the payment of benefits to any Participant commence later than the 60th day after the latest of the following: (i) the close of the Plan Year of the Participant's Normal Retirement Date (as defined in Section 4.01); (ii) the close of the Plan Year in which occurs the tenth anniversary of the year in which the Participant commenced participation in the Plan; or (iii) the close of the Plan Year in which the Participant terminates his service with the Employer and all Affiliated Employers.
- (b) Notwithstanding the foregoing, benefits from the Plan shall begin no later than the required beginning dates described in Section 5.06.

12.07 COMMENCEMENT OF BENEFITS PRIOR TO NORMAL RETIREMENT AGE

Notwithstanding anything herein to the contrary, except as provided in Section 12.01, no benefit shall commence to the Participant or the Participant's spouse prior to the date the Participant attains or would have attained his Normal Retirement Age without the consent of

the Participant and the Participant's spouse, if required by applicable law. Such consent must be obtained not more than 90 days prior to the Benefit Commencement Date.

12.08 DISTRIBUTION OF BENEFITS BEGINNING BEFORE DEATH AND AFTER DEATH

- (a) DISTRIBUTION BEGINNING BEFORE DEATH. If distribution to the Participant has begun and the Participant dies before his entire Vested Benefit has been distributed, the remaining portion of such Vested Benefit shall be distributed to his Beneficiary or Contingent Annuitant, as least as rapidly as under the method of payment in effect at the Participant's date of death.
- (b) DISTRIBUTION BEGINNING AFTER DEATH. If the Participant dies before commencement of his Vested Benefit, distribution of the Participant's entire Vested Benefit shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death, except that:
 - (i) if the Participant's designated Beneficiary is an individual other than the Participant's spouse, the Participant's interest may be distributed over the life expectancy of his Beneficiary, beginning on or before December 31 of the calendar year immediately following the calendar year in which the Participant died; and
 - (ii) if the Participant's designated Beneficiary is his spouse, the Participant's interest may be distributed over the life expectancy of his spouse, beginning on or before the later of:
 - (A) December 31 of the calendar year next following the calendar year in which the Participant died; or
 - (B) December 31 of the calendar year in which the Participant would have attained age 70 1/2.

12.09 DISTRIBUTION LIMITATIONS

(a) For purposes of this Section 12.09, the following terms shall have the indicated meaning:

- (i) "BENEFITS" means the sum of the Participant's accrued benefit and all other benefits to which he is entitled under the Plan, but excluding any death benefit provided for by insurance on the Participant's life.
- (ii) "RESTRICTED PARTICIPANT" means, with respect to a Plan Year, a Highly Compensated Employee who is a Participant and who, if there are more than 25 Highly Compensated Employees, is one of the 25 Highly Compensated Employees with the highest Total Annual Pay, as defined in subparagraph (iii) below.

An individual who is a Restricted Participant in a Plan Year shall be a Restricted Participant in a subsequent Plan Year only if he satisfies the conditions of the previous sentence in such subsequent Plan Year.

If more than one individual has the same Total Annual Pay, the younger individual shall be deemed to have the higher Total Annual Pay.

- (iii) "TOTAL ANNUAL PAY" means, with respect to any Plan Year:
 - (A) In the case of a Highly Compensated Employee who is not currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation (as defined in Section 5.04(c)) for the Plan Year in which he ceased to be employed by the Employer or an Affiliated Employer, or his Section 415 Compensation for the Plan Year immediately preceding that Plan Year, and
 - (B) In the case of a Highly Compensated Employee who is currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation for the Plan Year in question or for the prior Plan Year.

(b) Subject to paragraph (c) below, a Restricted Participant may not receive his Benefits under this Plan in the form of a single lump sum payment, or other benefit form under which payments during a single year would exceed the annual payments that would be made on behalf of such Participant under a single life annuity that is the Actuarial Equivalent of his benefits (other than the benefits described in paragraph (c)(iii) below).

(c) The limitation of paragraph (b) above shall not apply:

(i) to any payment, if the value of Plan assets after such payment equals or exceeds 110% of the value of the Plan's "CURRENT LIABILITIES" (within the meaning of Section 412(1)(7) of the Code); or

(ii) if the value of the Restricted Participant's Benefit is less than 1% of the value of such current liabilities, or

(iii) to payment of benefits attributable to transferred balances from defined contribution plans or to employee contributions.

(d) In the event that Congress provides by statute, or the Internal Revenue Service provides by regulation or ruling, that the limitations set forth in this Section 12.09 are not necessary for the Plan to meet the requirements of Section 401(a) or other applicable provisions of the Code then in effect, such limitations shall become void and shall no longer apply without the necessity of further amendment to the Plan.

(e) Notwithstanding the foregoing, the limitations of paragraph (b) above shall not apply to any Restricted Participant otherwise subject thereto who enters into a prior written agreement with the Committee to the effect that if the Plan is terminated and distribution of benefits has been or will be made to such Participant regardless of the limitation of paragraph (b) above, such Participant (or, in the case of his death, his estate or representatives) shall repay to the Trustee a sum equal to the total amounts by which his benefits under the Plan shall exceed benefits determined under the preceding limitation ("Restricted Benefits").

12.10 DIRECT ROLLOVER DISTRIBUTIONS

Notwithstanding any provision of the Plan to the contrary, if any distribution to a Distributee (i) is made on or after January 1, 1993, (ii) totals \$200 or more, and (iii) constitutes an Eligible Rollover Distribution, the Distributee may elect on a form provided by the Committee to have all or part of such Eligible Rollover Distribution paid in a direct rollover to an Eligible Retirement Plan selected by the Distributee. For this purpose, a Distributee, an Eligible Rollover Distribution, and an Eligible Retirement Plan shall be defined as follows:

- (a) Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.
- (b) Eligible Rollover Distribution means any distribution of all or any portion of the balance to the credit of a Distributee, except that an Eligible Rollover Distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).
- (c) Eligible Retirement Plan means a plan described below:
 - (i) an individual retirement account described in Section 408(a) of the Code;
 - (ii) an individual retirement annuity (other than an endowment contract) described in Section 408(b) of the Code;
 - (iii) with respect to Participants and Distributees who are alternate payees only, a qualified defined contribution plan and exempt trust described in Sections 401(a) and 501(a) of the Code respectively, the terms of which permit the acceptance of rollover contributions; or

- (iv) with respect to Participants and Distributees who are alternate payees only, an annuity plan described in Section 403(a) of the Code.

If an election is made to have only a part of an eligible rollover distribution paid in a direct rollover, the amount of the direct rollover must total \$500 or more.

Direct rollovers shall be accomplished in accordance with procedures established by the Committee.

ARTICLE 13 - AMENDMENTS TO OR TERMINATION OF THE PLAN

13.01 RIGHTS OF THE EMPLOYER TO AMEND OR TERMINATE

(a) While it is the intention of the Sponsoring Employer to continue the Plan indefinitely, the Sponsoring Employer reserves the right to modify, amend or terminate the Plan in whole or in part at any time by an instrument in writing pursuant to authority of a vote of the Board of Directors; provided, however, that the Plan shall not be amended in such manner as would cause or permit any part of the Trust to be diverted for purposes other than for the exclusive benefit of Participants, Retired Participants, and Terminated Participants; decrease a Participant's accrued benefit or eliminate an optional form of payment with respect to benefits accrued as of the later of the (a) the date such amendment is adopted, or (b) the date the amendment becomes effective; or to revert to or become the property of the Employer, prior to the satisfaction of all liabilities under the Plan with respect to Participants, Retired Participants, Terminated Participants, surviving spouses, Contingent Annuitants, and Beneficiaries.

(b) If any Plan amendment changes the vesting schedule set forth in

Section 6.02, each Participant who has completed at least three (3) years of Service on the effective date of the change in the vesting schedule shall have his vesting percentage computed in accordance with the vesting schedule which produces the highest vested benefit.

13.02 TERMINATION OF THE PLAN

Upon termination of the Plan due to any reason, or partial termination in accordance with the regulations of the Treasury Department, the rights of all non-vested Participants affected by such termination to benefits accrued prior to the date of such termination shall be nonforfeitable. The assets of the Plan shall thereupon be allocated in accordance with the provisions of Sections 13.03 and 13.04. No Participant or any other person shall have the right to seek payment of benefits directly from the Sponsoring Employer or Employer and all persons shall look solely to the Trust Fund for payment of benefits. Such payments shall be made only to the extent that the funds held in the Trust are sufficient therefor, except as may be otherwise guaranteed by the Pension Benefit Guaranty Corporation.

Upon termination of the Plan, benefits of missing participants shall be treated in accordance with Section 4050 of ERISA.

13.03 LIMITATIONS ON BENEFITS UPON TERMINATION

The allocation of the amounts in Section 13.04 shall be based on the actuarial value of the benefit payable under the Plan at Normal Retirement Age as a life annuity, without death benefit, not in excess of the lesser of:

- (a) 100% of the Participant's monthly compensation averaged over the five consecutive years in which his compensation was the highest; or
- (b) such amount as determined according to the regulations of the Pension Benefit Guaranty Corporation. Such amount shall be subject to adjustment each year to reflect changes in the Social Security contribution and benefit base, any such adjustments shall be in accordance with regulations issued by the Pension Benefit Guaranty Corporation.

13.04 ALLOCATION OF ASSETS

After providing for the expenses incurred in terminating the Plan, the assets shall be used and applied for the benefit of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries), Participants, and Terminated Participants who at the date of retirement or termination of employment may have been entitled to retirement benefits, to be allocated in the following order:

- (a) FIRST: Assets shall be allocated to provide pensions for life, on the basis of the Plan provisions in effect at the beginning of the five-year period ending on the date of Plan termination, to Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) who have been receiving benefits for three years prior to the date of termination and Participants and Terminated Participants who have met the requirements for normal or early retirement benefit at least three years prior to the date of termination.
- (b) SECOND: If any assets remain after allocation for the purposes of paragraph (a), they shall be allocated to provide a benefit for life, on the basis of the Plan provisions in effect five years prior to the date of Plan termination, to all other Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) and all other Participants and Terminated Participants who are not included in paragraph (a) and who have met the requirements for Normal or Early Retirement or for a Vested Benefit under Article 6 at the date of termination.

(c) THIRD: If any assets remain after allocation for the purposes of paragraphs (a), and (b), they shall be allocated to provide the benefit, if any, in excess of the benefit provided by the allocations under paragraphs (a), and (b) necessary to bring the benefits of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries) and all Participants and Terminated Participants who have met the requirements for Normal or Early Retirement or a Vested Benefit under Article 6 at the date of Plan termination up to the full amount of the accrued retirement benefit provided under the Plan as of the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.

(d) FOURTH: If any assets remain after allocation for the purposes of paragraphs (a), (b), and (c), they shall be allocated to provide benefits to all other Participants of the Plan on the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.

(e) FIFTH: If any assets remain after the complete allocation for the foregoing purposes of this Article 13, they shall be returned to the Employer.

If the allocable assets are insufficient to provide in full for the allocations under any of the foregoing paragraphs after the provision for all allocations under previous paragraphs, each allocation under such paragraph as to which assets are insufficient shall be reduced pro-rata.

No allocations will be made under the foregoing Section with respect to any benefits accrued under the Plan after the Secretary of the Treasury has issued notice that the Plan does not meet the requirements of Section 401(a) of the Code.

13.05 DISTRIBUTION MEDIA

The allocations for which provision is made in this Article 13 may be accomplished through:

- (a) group contracts or individual annuity contracts; or
- (b) cash; or
- (c) any combination of the foregoing.

14.01 ARTICLE CONTROLS

Any Plan provisions to the contrary notwithstanding, the provisions of this Article 14 shall control to the extent required to cause the Plan to comply with the requirements imposed by Section 416 of the Code.

14.02 DEFINITIONS

Where the following words and phrases appear in this Article 14, they shall have the respective meanings set forth below, unless their context clearly indicates to the contrary:

(a) ACCOUNT BALANCE

As of any Valuation Date, the aggregate amount credited to an individual's account or accounts under a qualified defined contribution plan (excluding the employee contributions which were deductible within the meaning of Section 219 of the Code and rollover or transfer contributions made by or on behalf of such individual to such plan from another qualified plan, sponsored by an entity other than the Employer or an Affiliated Company) increased by (i) the aggregate distributions made to such individual from such plan during a five-year period ending on the Determination Date and (ii) the amount of any contributions due as of the Determination Date immediately following such Valuation Date;

(b) ACCRUED BENEFIT

As of any Valuation Date, the present value (computed on the basis of the Assumptions) of the cumulative accrued benefit (excluding the portion thereof which is attributable to employee contributions which were deductible pursuant to Section 219 of the Code, to rollover or transfer contributions made by or on behalf of such individual to such plan from another qualified plan sponsored by an entity other than the Employer or an Affiliated Company, to proportional subsidies or to ancillary benefits) of an individual under a qualified defined benefit plan increased by the aggregate distributions made to such individual from such plan during a five-year period ending on the Determination Date;

(c) AFFILIATED COMPANY

Any corporation or other business entity which is required to be aggregated with the Employer by reason of Section 414(b), 414(c) or 414(m) of the Code;

(d) AGGREGATION GROUP

The group of qualified plans (including terminated plans maintained within the five-year period ending on the Determination Date) maintained by the Employer and each Affiliated Company consisting of (i) each plan in which a Key Employee participates and each other plan which enables a plan in which a Key Employee participates to meet the requirements of Section 401(a)(4) or 410 of the Code, or (ii) each plan in which a Key Employee participates, each other plan which enables a plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) and 410 of the Code and any other plan which the Employer elects to include as part of such group; provided, however, that the Employer may not elect to include a plan in such group if its inclusion would cause the group to fail to meet the requirements of Sections 401(a)(4) and 410 of the Code;

(e) ASSUMPTIONS

For purposes of this Article 14, the interest rate and mortality assumptions specified in Section 1.01(a) of the Plan;

(f) DETERMINATION DATE

For the first Plan Year of any plan, the last day of such Plan Year, and for each subsequent Plan Year of such plan, the last day of the preceding Plan Year;

(g) FORMER KEY EMPLOYEE

With respect to any Plan Year, any individual who was a Key Employee in a previous Plan Year but who is not a Key Employee with respect to such Plan Year. For purposes of this definition, a Beneficiary (who would not otherwise be a Key Employee) of a deceased Former Key Employee shall be deemed to be a Former Key Employee in substitution for such deceased Former Key Employee;

(h) HIGHEST AVERAGE COMPENSATION

The highest annual average of the taxable compensation paid by the Employer to an Employee during any five (5) consecutive Plan Years (excluding Plan Years prior to the first Plan Year the Plan was top-heavy and excluding Plan Years subsequent to the last Plan Year the Plan was top-heavy), or during all of such Plan Years during which the Employee received taxable compensation from the Employer, if less than five (5);

(i) KEY EMPLOYEE

With respect to any Plan Year, any individual who at any time during such Plan Year or during any of the four (4) Plan Years immediately preceding such Plan Year was (i) an officer of the Employer or an Affiliated Company having an annual compensation greater than 50% of the dollar limitation specified in Section 415(b)(1)(A) of the Code for any such Plan Year, (ii) one of the ten employees having an annual compensation greater than the dollar limitation specified in Section 415(c)(1)(A) of the Code for any such Plan Year and owning the largest interests in the Employer or an Affiliated Company and owning greater than a 1/2 percent interest in the Employer or an Affiliated Company, (iii), an owner of five percent (5%) or more of the outstanding stock of the Employer or an Affiliated Company or of stock possessing five percent or more of the total combined voting power of all of the stock of the Employer or an Affiliated Company, or (iv) an employee whose Remuneration (during the Plan Year including the Determination Date) exceeded \$150,000 and who was an owner of one percent or more of the outstanding stock of the Employer or an Affiliated Company or of stock possessing one percent or more of the total combined voting power of all of the stock of the Employer or an Affiliated Company. For purposes of this definition, (i) an individual shall be deemed to own stock owned by other individuals as provided in Section 318 of the Code, but substituting 5% for 50% in subparagraph (C) of Section 318(a)(2) of the Code, (ii) a beneficiary (who would not otherwise be a Key Employee) of a deceased Key Employee shall be deemed to be a Key Employee in substitution for such deceased Key Employee, and (iii) the total number of Key Employees who are officers of the Employer and the Affiliated Companies shall be limited to: if there is a total of less than thirty (30) employees of the Employer and the Affiliated Companies, three (3); if there is a total of more than thirty (30) but less than five hundred (500) employees of the Employer and the Affiliated Companies, ten percent (10%) of such total; and, if there is a total of more than five hundred (500) employees of the Employer and the Affiliated Companies, fifty (50);

(j) NON-KEY EMPLOYEE

An individual who is not a Key Employee.

(k) PLAN YEAR

With respect to any plan, the annual accounting period used by such plan for annual reporting purposes;

(l) REMUNERATION

An individual's earned income, wages, salaries and other amounts actually paid or made available by the Employer or an Affiliated Company to such an individual during a Plan Year for personal services actually rendered in the course of employment with the Employer or an Affiliated Company (subject to exclusion of amounts specified by regulations promulgated under Section 415 of the Code);

(m) TOP-HEAVY SERVICE

Each year of Service, excluding all years of Service credited prior to January 1, 1984 and all years of Service with respect to Plan Years for which the Plan was not top-heavy;

(n) VALUATION DATE

With respect to any Plan Year of any defined contribution plan, the most recent date within the twelve (12) month period prior to a Determination Date as of which the trust fund established under such plan was valued and the net income (or loss) thereof allocated to Participants' accounts. With respect to any Plan Year of a defined benefit plan, the most recent date within a twelve-month period prior to a Determination Date as of which the plan assets were valued for purposes of computing plan costs for purposes of the requirements imposed under Section 412 of the Code.

14.03 TOP-HEAVY STATUS

(a) The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

(i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the five Plan Years ending on the Determination Date shall be taken into consideration.

(ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the period of five years ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such five year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee

who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

(iii) If an Employee is not a Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.

(iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Employees who are not Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

(v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.

(vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.01(a).

(vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

(b) If the Plan is determined to be top-heavy for a Plan Year, the annual retirement benefit of each Participant who is a Non-Key Employee shall not be less than the lesser of (i) or (ii), where

(i) is two percent (2%) of the Participant's Highest Average Compensation multiplied by the Participant's Years of Top-Heavy Service; and

(ii) is twenty percent (20%) of the Participant's Highest Average Compensation.

The minimum annual retirement benefit provided by the preceding sentence means the retirement benefit payable annually under the Plan in the form of a single life annuity with no ancillary benefits and beginning on the date the Participant attains Normal Retirement Age. If a Participant actually receives his benefit under the Plan in a different form or commencing at a different time, his benefit shall not be less than the Actuarial Equivalent (using the factors set forth in Section 1.01(c)) of the foregoing minimum benefit;

(c) If the Plan is determined to be top-heavy for a Plan Year, the Vested Benefit of any Participant who completes an Hour of Service during such Plan Year or who terminates his service with the Employer during such Plan Year shall be determined in accordance with Section 6.02, but using the following vesting schedule:

YEARS OF SERVICE	VESTED PERCENTAGE
Less than 3 years	0%
3 years or more	100%

If the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule and the provisions of Section 13.01(b) shall be applied.

The provisions of this paragraph (c) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of Section 6.02.

(d) In any Plan Year in which the Plan is top heavy but not super top heavy (substituting 90% for 60% in subparagraph (a) above), Section 5.041(d)(ii) shall be applied by substituting "100%" for "125%" unless the Sponsoring Employer amends subparagraph (b)(i) above by substituting "3%" for "2%" therein. Effective January 1, 2000, this paragraph (d) shall no longer be applicable.

(e) In any Plan Year in which the Plan is super top heavy, the factor of "125%" shall be changed to "100%" in Section 5.041(d)(ii). Effective January 1, 2000, this paragraph (e) shall no longer be applicable.

14.04 TERMINATION OF TOP-HEAVY STATUS

Except as specifically provided in Section 14.03(c), if the Plan has been deemed to be top-heavy for one or more Plan Years and thereafter ceases to be top-heavy, the provisions of this Article 14 shall cease to apply to the Plan effective as of the day following the Determination Date on which it is determined to no longer be top-heavy, provided, however, that the accrued benefit of any Participant under the Plan shall not be less than the minimum benefit which such Participant had accrued under Section 14.03(b) as of the last day of the last Plan Year for which the Plan was top-heavy.

ARTICLE 15 - MISCELLANEOUS

15.01 RIGHTS AGAINST THE EMPLOYER

Neither the establishment of the Plan, nor the Trust Fund, nor any modification thereof, nor the payment of benefits hereunder shall be construed as giving any Employee or Participant the right to be retained in the service of the Employer or as interfering with the right of the Employer to discharge any Employee at any time.

15.02 RETURN OF CONTRIBUTIONS

- (a) In the event that the Commissioner of Internal Revenue (or his or her delegate) determines that the Plan is not initially qualified under the Code, any Employer contributions made to the Plan shall be returned to the Employer within one year after the date the initial qualification is denied, provided application for qualification is made by the time prescribed by law for filing the Employer's return for the fiscal year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe.
- (b) Nothing herein shall prohibit a return to the Employer, within one year after payment, of excess sums contributed to the Trust Fund as a result of a mistake of fact.
- (c) Each Employer contribution is specifically conditioned on the deductibility of the contribution under Section 404 of the Code, and to the extent such contribution, or any part thereof, is disallowed, the contribution, or any part thereof that is disallowed, shall be returned to the Employer within one year after the date of disallowance.
- (d) The return of a contribution to the Employer pursuant to paragraph (b) or (c) above shall be permitted hereunder only if the amount so returned (i) is the excess of the amount actually contributed over the amount which would have otherwise been contributed, (ii) does not include the earnings attributable to such contribution and (iii) is reduced by any losses attributable to such contribution.

15.03 MERGER

Unless otherwise permitted by law or regulations, the Plan shall not be merged into, or consolidated with, nor shall any assets or liabilities be transferred to, any other pension or retirement plan under circumstances resulting in a transfer of assets or liabilities from the Plan to such other plan unless immediately after any such merger, consolidation or transfer each Employee would if such other plan then terminated, receive a benefit which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer, if the Plan had then terminated.

15.04 LEASED EMPLOYEES

For purposes of the Plan, the term "leased employee" means any person who would not otherwise be considered an Employee but who, pursuant to an agreement between the Employer or an Affiliated Employer and a leasing organization (within the meaning of Section 414(n)(2) of the Code) has performed services for the Employer or Affiliated Employer on a substantially full time basis for a period of at least one year, and such services are performed under the primary direction and control of the Employer or Affiliated Employer. Contributions or benefits provided a leased employee by the leasing organization which are attributable to services performed for the Employer or Affiliated Employer shall be treated as provided by the Employer or Affiliated Employer.

A leased employee shall not be considered an Employee if:

- (a) Such individual is covered by a money purchase pension plan providing (i) a nonintegrated employer contribution rate of at least ten percent of his "Section 415 Compensation" (as defined in Section 5.04(c)), but including amounts contributed pursuant to a salary reduction agreement which are not includable in gross income under Section 125, 402(a)(8), 402(h), or 403(b) of the Code, (ii) immediate participation, and (iii) full and immediate vesting; and
- (b) leased employees constitute twenty percent or less of the Employer's or Affiliated Employer's nonhighly compensated workforce (within the meaning of Section 414(n)(5)(C)(ii) of the Code).

15.05 APPLICABLE LAW

The provisions of this Plan shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts.

15.06 HEADINGS

The headings of the Plan are inserted for convenience of reference only, and shall have no effect upon the meaning of the provisions hereof.

15.07 GENDER AND NUMBER

Wherever used in this instrument, a masculine person shall be deemed to include the masculine and feminine gender, and a singular word shall be deemed to include the singular and plural, in all cases where the context requires.

APPENDIX A

PRIOR BENEFIT RATES

The following is a listing of the Benefit Rates in effect under the Watts Industries, Inc. Hourly Pension Plan prior to January 1, 1997

LAST HOUR OF SERVICE			
ENTITY	ON OR AFTER	BUT BEFORE	BENEFIT RATE
Circle Seal Controls, Inc.	9/7/1990	1/1/1997	\$ 15.00
Regtrol, Inc.	1/1/1985	7/1/1988	\$ 5.50
	7/1/1988	1/1/1989	\$ 7.00
	1/1/1989	1/1/1991	\$ 8.00
	1/1/1991	1/1/1997	\$ 11.00
Webster Valve Division	1/1/1985	1/1/1988	\$ 6.50
	1/1/1988	7/1/1988	\$ 8.50
	7/1/1988	1/1/1989	\$ 10.00
	1/1/1989	1/1/1991	\$ 11.00
	1/1/1991	1/1/1997	\$ 12.50
Leslie Controls, Inc.	1/1/1989	1/1/1997	\$ 13.00
Webster Foundry Division	1/1/1985	1/1/1988	\$ 6.50
	1/1/1988	7/1/1988	\$ 8.50
	7/1/1988	1/1/1989	\$ 10.00
	1/1/1989	1/1/1991	\$ 11.00
	1/1/1991	1/1/1997	\$ 12.50
KF Industries, Inc.	1/1/1989	1/1/1991	\$ 8.00
	1/1/1991	1/1/1993	\$ 10.00
	1/1/1993	1/1/1997	\$ 12.00
Rudolph LaBranche, Inc.	1/1/1989	1/1/1991	\$ 11.00
	1/1/1991	1/1/1997	\$ 12.50
Watts Automatic Control Valve, Inc.	1/1/1989	1/1/1991	\$ 8.00
	1/1/1991	1/1/1997	\$ 10.00
Eagle Valve Company, Inc.	1/1/1991	1/1/1997	\$ 10.00
Contromatics, Inc.	1/1/1993	1/1/1997	\$ 12.50

PART B

**WATTS INDUSTRIES, INC.
PENSION PLAN**

JAMECO INDUSTRIES, INC. PENSION PLAN

STATEMENT OF PURPOSE

Jameco Industries, Inc. has had in effect since December 1, 1963 the Jamaica Manufacturing Co., Inc. Employees Pension Plan, to which it made contributions for providing benefits for its eligible employees and their beneficiaries, in the manner and to the extent set forth in such plan.

The Jamaica Manufacturing Co., Inc. Pension Plan (As Amended 1969) and its related amended trust agreement constituted an amendment in its entirety to the Jamaica Manufacturing Co., Inc. Employees Pension Plan.

Effective October 1, 1969, the name of the Jamaica Manufacturing Co., Inc. Pension Plan (As Amended 1969) was changed to Jameco Industries, Inc. Pension Plan (As Amended 1969).

The plan was amended in its entirety again in 1976, 1982, 1984, and 1989.

Effective October 1, 1995, the Plan was merged into the Watts Industries, Inc. Retirement Plan for Salaried Employees, now called the Watts Industries, Inc. Pension Plan (Watts Pension Plan) and the Plan's terms were incorporated and made a part of the Watts Pension Plan as this Part B.

The Plan is hereby restated effective January 1, 1997 and such later dates as may be specified herein to comply with the General Agreement on Tariffs and Trade, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and other applicable laws.

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ARTICLE I

DEFINITIONS

- 1.01 "Accrued Benefit" on behalf of any Participant shall be equal to the benefit calculated at any point in time and payable at Normal Retirement Date determined pursuant to Section 5.01.
- 1.02 "Actuarial Equivalent" means an equivalency in value, at a given point in time, between different forms of benefits, payable commencing at a date other than Normal Retirement Date. Unless the Plan is amended to change the actuarial assumptions on which calculation of equivalence is based, optional forms of benefits for all Participants shall be determined on the basis of the following conversion factors:
- (a) For purposes of determining the lump-sum value of any benefit payable or the amount of income equivalent to a Participant's account in accordance with Section 5.01, the rates under Metropolitan Life Insurance Company Group Annuity Contract No. 956 on the day before the Anniversary Date preceding or coincident with the date selected for the payment of the benefit shall be used. Such rates, without load and irrespective of the Participant's sex shall reflect the insurance company's Group 66-population 78A male mortality table and the interest rates under the contract.
 - (b) For purposes of determining the amount of any optional form of retirement income payable other than a lump-sum distribution, an interest rate of eight percent (8%) per year, compounded annually, and mortality rates in accordance with Unisex Pension 1984 (UP84) Mortality Table shall be used.
 - (c) If any benefit, other than the Disability benefit calculated in accordance with Section 9.06(b), is payable to a Participant eligible for Disability Retirement or Early Retirement before such Participant's Normal Retirement Date, the Participant's Accrued Benefit will be reduced by five-ninths percent (5/9%) for each of the first sixty (60) months and five-eighteenths percent (5/18%) for each of the next sixty (60) months by which the commencement of benefits precedes the Participant's Normal Retirement Date. If any Disability benefit calculated in accordance with Section 9.06(b) is to commence before age 55, the Accrued Benefit will be additionally reduced by a five percent (5%) annual discount factor, charged monthly.
 - (d) If any benefit determined as of or after a Participant's Normal Retirement Date is payable at a later date, it shall be increased at the rate of eight percent (8%) per

year, compounded annually, with respect to the period commencement is deferred.

- (e) Notwithstanding the foregoing, for purposes of determining the amount of any optional form of retirement income, death benefit, lump-sum value and early or late commencement adjustments available under a deferred annuity purchased or a Participant or a Participant's surviving Spouse in accordance with Section 6.01 or Actuarial Equivalence will be based on the assumptions specified by the insurance company which issues such annuity.

The Actuarial Equivalent of a benefit payable in a lump sum will be determined by using the mortality table prescribed in Section 417(e)(e) of the Code, and using an interest rate equal to the rate on 30-year Treasury Constant Maturities for the month of November prior to the Plan Year of the distribution date.

- 1.03 "Affiliated Employer" means any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Employer; any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Employer; any other entity required to be aggregated with the Employer pursuant to Regulations under Code Section 414(o).
- 1.04 "Annuity Starting Date" means the first day of the first period for which an amount is payable as an annuity or in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to such benefit.
- 1.05 "Average Monthly Compensation" means 1/12th of the annual Compensation of a Participant averaged over the five (5) consecutive completed calendar years, including periods prior to the Effective Date of the Plan, which produce the highest monthly average within the last ten (10) completed years of participation. If a Participant has less than five (5) consecutive completed calendar years from his date of participation to his date of termination, his Average Monthly Compensation will be based on his Compensation from his date of employment to his date of termination or during the actual period of his service if less. Compensation before the calendar year preceding the date on which a Participant first satisfies the Plan's age, Service and/or Hours of Service requirements in accordance with Section 2.01, in effect as of his date of participation, shall not be included in determining Average Monthly Compensation.
- 1.06 "Beneficiary" means the person designated to receive benefits which are payable under the Plan upon or after the death of a Participant.

- 1.07 "Board" means the Board of Directors of Jameco Industries, Inc. as from time to time constituted.
- 1.08 (a) "Break in Service" means the applicable Computation Period of twelve (12) consecutive months during which an Employee fails to accrue a Month of Service. Further, solely for the purpose of determining whether a Participant has incurred a 1-Year Break in Service, Hours of Service shall be recognized for "authorized leaves of absence" and "maternity and paternity leaves of absence." Years of Service and 1-Year Breaks in Service shall be measured on the same Computation Period. An Employee shall not be deemed to have incurred a 1-Year Break in Service if he completes an Hour of Service within twelve (12) months following the last day of the month during which his employment terminated.
- (b) "Authorized Leave of Absence" means an unpaid, temporary cessation from active employment with the Employer pursuant to an established nondiscriminatory policy, whether occasioned by illness, or any other reason.
- (c) "Maternity or Paternity Leave of Absence" means, for Plan Years beginning after December 31, 1984, an absence from work for any period by reason of the Employee's pregnancy, birth of the Employee's child, placement of a child with the Employee in connection with the adoption of such child, or any absence for the purpose of caring for such child for a period immediately following such birth or placement. For this purpose, Hours of Service shall be credited for the twelve (12) month period of absence from work, only if credit therefore is necessary to prevent the Employee from incurring a 1-Year Break in Service.
- 1.09 "Break-in-Service Year" means a year which interrupts the continuous accrual of Service or Credited Service.
- 1.10 "Code" means Internal Revenue Code of 1986, as amended.
- 1.11 "Committee" means the Administrative Committee appointed to administer the Plan in accordance with Article XI hereof.
- 1.12 "Compensation" means a Participant's wages paid for the calendar year, as defined in Code Section 3401(a) for purposes of income tax withholding at the source, but determined without regard to any rules limiting the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)).

For purposes of this Section, the determination of Compensation shall be made by including salary reduction contributions made on behalf of an Employee to a plan maintained under Code Section 125 or Section 401(k)(2). Compensation shall be limited by the dollar amount set forth in Section 401(a)(17) of the Code as adjusted by the Commissioner for increases in the cost of living in accordance with Section 401(a)(17)(B) of the Internal Revenue Code. The cost-of living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, Compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period and the denominator of which is 12.

Solely for purposes of determining if this Plan complies with the nondiscrimination and coverage requirements of Code Sections 401(a)(4) and 410(b), Compensation shall include all amounts imputed during a period of absence from Service on account of disability or leave of absence. Such imputed Compensation shall be credited for either six months or the duration of the absence, whichever is shorter; except, if the absence is for military duty or jury duty, Compensation will be credited for the entire period of absence. Determination of the amount of imputed Compensation will be based on Compensation reasonably representative of what that Participant would have received during the period if the Participant had continued to perform services.

- 1.13. "Computation Period" means, for eligibility purposes, the period described in Section 2.05. For all other purposes, "Computation Period" means the twelve (12) month period beginning as of the first day of the month of employment and each anniversary thereof.
- 1.14 "Contingent Annuitant" means a person designated under an option of Article VI or Article VII hereof to receive a retirement allowance during his or her lifetime after the death of an Employee.
- 1.15 "Contributions" means the payments to the Fund by the Employer which are provided for herein.
- 1.16 "Covered Compensation" for a Participant means the average (without indexing) of the taxable wage bases in effect for each calendar year during the 35-year period ending with the last day of the calendar year in which the Participant attains (or will attain) social security retirement age. No increase in Covered Compensation shall decrease a Participant's Accrued Benefit under the Plan. In determining a Participant's Covered Compensation for a Plan Year, the taxable wage base for all calendar years beginning after the first day of the Plan Year is assumed to be the same as the taxable wage base in effect as of the beginning of the Plan Year. A Participant's Covered Compensation for a

Plan Year before the 35-year period ending with the last day of the calendar year in which the Participant attains social security retirement age is the taxable wage base in effect as of the beginning of the Plan Year. A Participant's Covered Compensation for a Plan Year after such 35-year period is the Participant's Covered Compensation for the Plan Year during which the 35-year period ends. For purposes of determining benefits under the Plan, Covered Compensation will be determined using the Covered Compensation table as in effect for the Plan Year in which such determination is being made.

1.17 "Credited Service" means the period of employment of the Participant used to accumulate benefits under the Plan as set forth in Article III hereof. Credited Service will be determined on the basis of elapsed time.

1.18 "Delayed Retirement Date" means the date set forth in Article IV.

1.19 "Disability" means a physical or mental condition of a Participant resulting from bodily injury, disease, or mental disorder which renders him incapable of continuing any gainful occupation and which condition constitutes total disability under the federal Social Security Act.

The Employer shall have the right to require the Participant to submit reasonable proof of such Disability. Such proof may include a requirement that the Participant submit to a medical examination from time to time by a qualified physician or physicians selected by the Employer. Medical examinations shall not be required more frequently than semiannually.

1.20 "Disability Retirement Date" means the date set forth in Article IV.

1.21 "Early Retirement Date" means the date set forth in Article IV.

1.22 "Effective Date" means December 1, 1963. The provisions of this amended and restated Plan shall be effective as of October 1, 1989.

1.23 "Eligible Employee" means an Employee described in Section 2.02.

1.24 "Employee" means any person employed by the Employer. The term "Employee" shall also include any leased employee deemed to be an Employee of the Employer, as provided in Code Sections 414(n) or (o), unless:

- (a) such individual is covered by a money purchase pension plan providing (A) a nonintegrated employer contribution rate of at least ten percent (10%) of

compensation, as defined in Section 415(c)(3) of the Code, but including amounts contributed by the employer pursuant to a salary reduction agreement which are excludable from the Leased Employee's gross income under Section 125, 401 (a)(8), 402(h) or 403(b) of the Code; (B) immediate participation; and (C) full and immediate vesting and

- (b) leased employees do not constitute more than twenty percent (20%) of the Employer's Nonhighly Compensated Employee workforce.
- 1.25 "Employer" means Jameco Industries, Inc. (Watts Industries, Inc. effective October 1, 1995) and any successor which shall maintain this Plan; and any other business entity which duly adopts the Plan with the approval of the Board of Directors.
- 1.26 "Employment Commencement Date" means the date on which an Employee first is credited with an Hour of Service.
- 1.27 "Entry Date" means the date defined in Section 2.01 of the Plan.
- 1.28 "Fiduciary" means any Trustee, Plan Administrator and any other person who:
 - (a) Exercises any discretionary authority or discretionary control respecting management of the Plan or exercises any authority or control respecting management or disposition of its assets;
 - (b) Has any discretionary authority or discretionary responsibility in the administration of the Plan; or
 - (c) Is described as a "fiduciary" in Section 3(14) or (21) of ERISA or is designated to carry out fiduciary responsibilities pursuant to this Agreement to the extent permitted by Section 405(c)(1)(B) of ERISA.
- 1.29 "Fund" means the funds and other assets held and administered by the Trustee in accordance with the terms of the Trust Agreement.
- 1.30 "Highly Compensated Employee" means any active Employee who performed services for the Employer or an Affiliated Employer during the Determination Year and who:
 - (a) was a 5% owner (within the meaning of Section 416(i)(1)(B)(i) of the Code at any time during the Determination Year or the Look-Back Year; or

(b) received compensation from the Employer or an Affiliated Employer in excess of \$80,000 (as adjusted pursuant to 415(d) of the Code) during the Look-Back Year, and was among the to 20% of Employees when ranked on the basis of compensation paid during the Look-Back Year.

The term Highly Compensated Employee shall also include any former Highly Compensated Employee who terminated employment with the Employer or an Affiliated Employer prior to the Determination Year, performs no services for the Employer or an Affiliated Employer during the Determination Year, and was a Highly Compensated Employee in either his or her year of termination of employment or in any Determination Year ending on or after his attainment of age 55.

For purposes of determining an Employee's compensation under this Section 1.30, compensation shall mean the "Employee's Compensation" (as defined in Section 5.04(d)) reportable on Form W-2, plus all contributions made on behalf of the Employee by the Employer or an Affiliated Employer pursuant to a salary deferral agreement maintained by the Employer or an Affiliated Employer under any cash or deferred arrangement described in

Section 401(k) of the Code or any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code by the Employer or Affiliated Employer, effective January 1, 2001, any amounts deferred under Section 132(f)(4) of the Code.

For purposes of this Section, the "Look-Back Year" means the period of the twelve consecutive months immediately preceding the Determination Year. Also for purposes of this Section, "Determination Year" means the Plan Year that is being tested for purposes of determining if an Employee is a Highly Compensated Employee.

1.31 (a) "Hour of Service" means:

(i) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. These hours will be credited to the Employee for the Computation Period in which the duties are performed; and

(ii) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Hours under this paragraph will be calculated and credited pursuant to Section 2530.200b-2 of the Department of Labor Regulations which is incorporated herein by this reference; and

(iii) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service will not be credited both under paragraph (a) or paragraph (b) as the case may be, and under this paragraph (c). These hours will be credited to the Employee for the Computation Period or Periods to which the award or agreement pertains rather than the Computation Period in which the award, agreement or payment is made.

(b) Solely for purposes of determining whether a Break in Service, for

eligibility and vesting purposes has occurred in a Computation Period, an individual who is absent from work for an authorized leave of absence or for a maternity or paternity leave of absence shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence. For purposes of this paragraph, an absence from work for maternity or paternity leave of absence means an absence (1) by reason of the pregnancy of the individual, (2) by reason of a birth of a child of the individual, (3) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be credited (1) in the Computation Period in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the following Computation Period.

1.32 "Insurer" means any legal reserve life insurance company as elected by the Committee which shall issue one or more insurance contracts under the Plan.

1.33 "Key Employee" means any Employee or former Employee (and the Beneficiaries of such Employee) who at any time during the determination period was an officer of the employer if such individual's annual Compensation exceeds fifty percent (50%) of the dollar limitation under Section 415(b)(1)(A) of the Code, an owner (or considered an owner under Section 318 of the Code) of one of the ten largest interests in the Employer if such individual's Compensation exceeds one hundred percent (100%) of the dollar

limitation under Section 415(c)(1)(A) of the Code, a 5-percent owner of the Employer, or a 1-percent owner of the Employer who has an annual Compensation of more than \$150,000. Annual Compensation means Compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the Employee's gross income under Section 125, Section 402(a)(8), Section 402(h) or Section 403(b) of the Code. The determination period is the Plan Year containing the determination date and the four (4) preceding Plan Years. The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Code and the regulations thereunder.

- 1.34 "Month of Service" for purposes of eligibility, vesting and benefit accrual means a calendar month any part of which is in a period of employment or credited absence.
- 1.35 "Non-Highly Compensated Employees" means all Employees who are not Highly Compensated Employees and shall be construed in accordance with the provisions of Code Section 414(q) and the regulations thereunder.
- 1.36 "Non-Key Employees" means any Employee or former Employee (and any Beneficiary of an Employee or former Employee) who is not a Key Employee.
- 1.37 "Normal Form of Retirement Benefits" means a pension payable for life beginning as of the Participant's retirement date or, if later, the income commencement date, but in the event of the Participant's death, before receiving one hundred twenty (120) monthly payments, his pension continues to his Beneficiary until the balance of the one hundred twenty (120) monthly payments has been paid.
- 1.38 "Normal Retirement Age" means the date on which a Participant attains age sixty-five (65), or, if later, the fifth anniversary of the date the Employee became a Participant.
- 1.39 "Normal Retirement Date" is the date described in Plan Section 4.01.
- 1.40 "Participant" means any Eligible Employee who participates in the Plan as provided in Article II and any other Employee or former Employee having a right or contingent right to benefits hereunder. "Active Participant" means an Eligible Employee who participates in the Plan and has not for any reason become ineligible to participate further in the Plan.
- 1.41 "Period of Service" means a period of service of an Employee commencing on his Employment Commencement Date or Reemployment Commencement Date, whichever is applicable, and ending on his Severance From Service Date.

- 1.42 "Period of Severance" means the period of time commencing on the Severance From Service Date of an Employee and ending on the Reemployment Commencement Date.
- 1.43 "Plan" means the Jameco Industries, Inc. Pension Plan established by the Employer as contained herein and wherever necessary or appropriate, includes the Plan as it was previously constituted prior to this amendment.
- 1.44 "Plan Sponsor" prior to October 1, 1995 means Jameco Industries, Inc.
- 1.45 "Plan Year" means each twelve (12) consecutive month period commencing with each October 1 and each anniversary thereafter.
- 1.46 "Qualified Domestic Relations Order" means a domestic relations order as defined in Section 14.18 in accordance with Section 414(p) of the Code.
- 1.47 "Reemployment Commencement Date" means the first date, following a Period of Severance on which the Employee performs an Hour of Service.
- 1.48 "Service" means the period of employment required for eligibility and vesting under the Plan, determined as set forth in Articles II and III hereof. Service will be determined on the basis of elapsed time.
- 1.49 "Severance From Service Date" means the date on which the continuous accrual of Service and Credited Service is interrupted, as set forth in Article III hereof.
- 1.50 "Spouse" means the person to whom the Participant has been legally married as of the Participant's death or Annuity Starting Date, whichever is earlier. The term "spouse" will also include a surviving spouse of the Participant, provided that a former spouse will be treated as the spouse or surviving spouse and a current spouse will not be treated as the spouse or surviving spouse to the extent provided under a qualified domestic relations order as described in Section 4.14(p) of the Code.
- 1.51 "Trust" means a trust established by the Employer in accordance with Article X hereof.
- 1.52 "Trust Agreement" means an agreement made between the Employer and the Trustee in Accordance with Article X hereof.
- 1.53 "Trustee" means a trustee or trustees of the Fund selected as provided in Article X hereof, including any successor trustee or trustees.

- 1.54 "Year of Service" for purposes of vesting and Credited Service means twelve (12) Months of Service. For this purpose, if an Employee works one (1) Hour of Service during a day, he will be credited with one (1) day of Service.

ARTICLE II

ELIGIBILITY

2.01 CONDITIONS OF ELIGIBILITY

(a) Prior to October 1, 1995, any Employee who was a Participant in the Plan prior to the effective date of this amendment and restatement shall continue to participate in the Plan. Any other Eligible Employee shall participate in the Plan as of the Entry Date next succeeding completion of six (6) Months of Service and the attainment of age twenty and one-half (20 1/2), provided such Employee completes one thousand (1,000) Hours of Service with the Employer during any applicable Computation Period. If an Employee has not satisfied the one thousand (1,000) Hours of Service eligibility requirement when otherwise eligible, he shall become a Participant as of the Entry Date next following the applicable Computation Period during which he first completes one thousand (1,000) Hours of Service with the Employer.

(b) Entry Date means the April 1 or October 1 next following the date an Eligible Employee satisfies the eligibility requirements of Section 2.01(a) of the Plan.

(c) Effective October 1, 1995, no new Participants shall be admitted

to participation under this Part B.

2.02 ELIGIBLE EMPLOYEE

"Eligible Employee" means any Employee except Employees whose employment is governed by the terms of a collective bargaining agreement between Employee representatives (within the meaning of Code Section 7701(1)(46)) and the Employer under which retirement benefits were the subject of good faith bargaining between the parties, unless such agreement expressly provides for such coverage in this Plan, will not be eligible to participate in this Plan.

Employees of Affiliated Employers shall not be eligible to participate in this Plan unless such Affiliated Employers have specifically adopted this Plan in writing.

2.03 DETERMINATION OF ELIGIBILITY

The Committee shall determine the eligibility of each Employee for participation in the Plan based upon information furnished by the Employer. Such determination shall be

conclusive and binding upon all persons, as long as the same is made pursuant to this Article II.

2.04 TERMINATION OF ELIGIBILITY

- (a) In the event a Participant shall go from a classification of an Eligible Employee to an ineligible Employee, such Participant shall continue to vest in his Accrued Benefit under the Plan for each Year of Service completed while a noneligible Employee, until such time as his Accrued Benefit shall be forfeited or distributed pursuant to the terms of the Plan.
- (b) In the event a Participant is no longer a member of an eligible class of Employees and becomes ineligible to participate but has not incurred a 1-Year Break in Service, such Employee will participate again immediately upon returning to an eligible class of Employees. If such Participant incurs a 1-Year Break in Service, eligibility will be determined under the break in service rules of this Article II.
- (c) In the event an Employee who is not a member of an eligible class of Employees becomes a member of an eligible class, such Employee will participate immediately if such Employee has satisfied the minimum age and service requirements and would have otherwise previously become a Participant.

2.05 DETERMINATION OF SERVICE AND BREAK IN SERVICE FOR ELIGIBILITY

- (a) Years of Service for eligibility shall be determined based on the eligibility Computation Period. The initial eligibility Computation Period shall be the 12-month period beginning on the participant's date of hire. The succeeding 12-consecutive month periods commence with the first Plan Year which commences prior to the first anniversary of the Employee's employment commencement date. Employment with an Affiliated Employer shall be recognized as employment with the Employer for purposes of determining Service for eligibility under the Plan.
- (b) All Years of Service with the Employer and Affiliated Employers shall be recognized for purposes of determining eligibility hereunder except the following:

In the case of a Participant who does not have any nonforfeitable right to his Accrued Benefit, Years of Service before a period of consecutive 1-year Breaks in Service will not be taken into account in computing eligibility service if the number of consecutive 1-year Breaks in Service in such period equals or exceeds the greater of five (5) or the aggregate number of Years of Service. Such

aggregate number of Years of Service will not include any Years of Service disregarded under the preceding sentence by reason of prior Breaks in Service.

If a Participant's Years of Service are disregarded pursuant to the preceding paragraph, such Participant will be treated as a new Employee for eligibility purposes. If a Participant's Years of Service may not be disregarded pursuant to the preceding paragraph, such Participant shall continue to participate in the Plan, or, if terminated, shall participate immediately upon reemployment.

Such Year of Service will be measured by the 12-month period beginning on an Employee's reemployment commencement date and, if necessary, Plan Years beginning with the Plan Year which includes the first anniversary of the reemployment commencement date. The reemployment commencement date is the first day on which the Employee is credited with an Hour of Service for the performance of duties after the first eligibility Computation Period in which the Employee incurs a 1-year Break in Service.

- (c) A Participant who terminates service and subsequently returns to service as an Eligible Employee shall participate immediately upon reemployment or again becoming an Eligible Employee.

ARTICLE III

SERVICE, CREDITED SERVICE AND BREAKS IN SERVICE
FOR VESTING AND BENEFIT ACCRUAL

3.01 SERVICE FOR ELIGIBILITY

Service for purposes of eligibility to participate is described in Article II of the Plan.

3.02 VESTING SERVICE

The Service of an Employee shall be the aggregate of his Periods of Service, as of the date benefits are to be determined under any of the provisions of the Plan. Periods of Service shall be expressed in terms of years and months and, in determining the total aggregate years, any fraction in excess of complete years shall be determined on the basis of the number of remaining Months of Service. Employment with an Affiliated Employer shall be recognized as employment with the Employer for purposes of determining Service for vesting and eligibility under the Plan.

3.03 SEVERANCE FROM SERVICE DATE

A Severance From Service Date shall be deemed to occur on the earlier of: (a) the date on which the Employee quits, retires, is discharged or dies; or (b) the first anniversary of the first date of a period in which the Employee remains absent from service (with or without pay) with the Employer for any reason other than quit, retirement, discharge or death.

3.04 ADDITIONAL SERVICE ALLOWANCE

If an Employee performs an Hour of Service within twelve (12) months of the Severance From Service Date, the Period of Severance shall be included as a Period of Service for purposes of determining years of Service under any of the provisions of the Plan.

3.05 CREDITED SERVICE

"Credited Service" of a Participant, as of the date the benefits are to be determined under the Plan, shall include all Periods of Service with the Employer. Service performed for Continental Brass Products, Corp., Universal Plumbing Sales Corp., Jamaica Manufacturing Co., Inc., Lipmans Imports, Inc. or Jamaica International, Inc. shall be counted as Credited Service for purposes of the Plan.

3.06 SERVICE IN THE ARMED FORCES

Any Employee who left active employment of the Employer to enter the Armed Forces of the United States, and whose reemployment rights are protected by Federal law, shall receive the Service and Credited Service for the period of his Military Service, that he would have earned had he instead continued his prior employment with the Employer, provided that the Employee returns to work in compliance with any requirements of such law.

3.07 MILITARY SERVICE

Notwithstanding any provision of this Plan to the contrary, contributions, benefits and service credit with respect to military service will be provided in accordance with Section 414(u) of the Code.

3.08 PRE-ERISA SERVICE

Prior to October 1, 1976, the uninterrupted period of employment with the Employer and with Continental Brass Products, Corp., Universal Plumbing Sales Corp., Jamaica Manufacturing Co., Inc., Lipmans Imports, Inc. or Jamaica International, Inc. as determined under the provisions of the Plan in effect before such date shall be counted for Service and Credited Service under the Plan.

ARTICLE IV

RETIREMENT CONDITIONS

4.01 NORMAL RETIREMENT

The Normal Retirement Date of a Participant shall be the first day of the month coinciding with or next following the date he attains Normal Retirement Age.

4.02 DELAYED RETIREMENT

If a Participant shall remain in employment beyond his Normal Retirement Date, his Delayed Retirement Date shall be the first day of the month coinciding with or next following the date such Participant notifies the Employer that his retirement is to be effective. A Participant who remains in employment beyond his Normal Retirement Date shall be deemed to have retired on the first day of the first month in which he completes less than forty (40) Hours of Service.

4.03 EARLY RETIREMENT

- (a) A Participant may retire from the employment of the Employer prior to his Normal Retirement Date on his Early Retirement Date, which is the first day of any month coinciding with or following the date he both attains the age of sixty (60) and completes twenty-five (25) Years of Service and elects to retire. A Participant may further elect to have his retirement benefit commence on his Early Retirement Date or may irrevocably elect to defer commencement of his benefit to his Normal Retirement Date.
- (b) If a Participant separates from service before satisfying the age requirement for early retirement, but has satisfied the service requirement, the Participant will be entitled to elect commencement of his retirement benefit upon satisfaction of such age requirement.

4.04 DISABILITY RETIREMENT

Upon demonstration of a Participant's Disability, the Participant shall automatically become fully vested and be eligible for disability retirement under Section 9.06.

4.05 SPECIAL RULES UPON DISABILITY RETIREMENT

- (a) As a condition of his continuing to receive Disability retirement income, the Committee shall have the right to require a Participant to provide such evidence as it considers appropriate for verifying his continued eligibility for disability insurance benefit payments under the Social Security Act.
- (b) The Committee shall require evidence that the application for such benefits has been approved by the Social Security Administrator. The final determination shall be made by the Committee on the basis of such evidence.
- (c) Upon the cessation of the Participant's Disability, he shall not be entitled to further benefits as the result of such Disability and he shall only be entitled to such other benefits as may be provided under the terms of the Plan for which he was eligible as of his Disability Retirement Date reduced in accordance with Section 14.14. If such Participant is reemployed by the Employer following the cessation of his Disability, he shall resume the classification of an Eligible Employee and future benefits payable on his subsequent termination of employment will be reduced in accordance with Section 14.14. The Participant shall remain 100% vested in the Accrued Benefit determined as of his Disability Retirement Date, but his vested interest with respect to additional accruals will be determined in accordance with Article IX.
- (d) If a Participant eligible for Disability Retirement is eligible for Early Retirement, he may, in lieu of the Disability Retirement benefit payable under this Section, elect to receive the benefit applicable under Section 9.02 or the Early Retirement benefit.

4.06 CONTINUATION OF BENEFITS UPON REEMPLOYMENT

If, after a Participant begins receiving benefits under this Plan, he then re-enters employment hereunder, his monthly benefit payments shall continue unreduced. Upon subsequent termination of employment, his benefit amount shall be recalculated on the basis of his Average Monthly Compensation determined as of his subsequent retirement date and his Credited Service earned prior and subsequent to his re-employment hereunder, reduced by the actuarial value of the payments previously made, but in no event less than the benefit amount paid prior to his reemployment.

4.07 COMMENCEMENT OF BENEFITS

Unless the Participant elects otherwise, distribution of benefits will begin no later than the 60th day after the latest of the close of the Plan Year in which:

- (a) the Participant attains age sixty-five (65) (or Normal Retirement Age, if earlier);
- (b) occurs the tenth (10th) anniversary of the year in which the Participant commenced participation in the Plan; or
- (c) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant and Spouse to consent to a distribution while a benefit is immediately distributable, within the meaning of Section 9.05 of the Plan, shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section.

ARTICLE V

RETIREMENT BENEFITS

5.01 NORMAL RETIREMENT BENEFIT

(a) Upon retirement at his Normal Retirement Date, a Participant shall receive a monthly retirement benefit which shall commence on such date and which shall be payable under the Normal Form of Retirement Benefit defined in Section 1.37 of the Plan. The amount of each such monthly retirement benefit shall be equal to the sum of (i) plus (ii) as follows:

(i) .375% of Average Monthly Compensation for each year of Credited Service,

(ii) .25% of Average Monthly Compensation in excess of Covered Compensation for each year of Credited Service.

(b) A Participant who remains in employment after his Normal

Retirement Date may elect to commence payment of his retirement benefit during employment on the first day of any month coincident with or following his Normal Retirement Date. The amount of such monthly retirement benefit shall be determined in the same manner as for retirement at Normal Retirement Date except that Years of Credited Service and Average Monthly Compensation shall be determined as of the date of his actual retirement. However, the benefit described in the preceding sentence shall be recalculated as of the first payment date each year thereafter to reflect changes in Credited Service and Average Monthly Compensation. In no event shall the retirement benefit payable be less than the benefit being paid prior to such recalculations. Solely for purposes of Article VI, upon such commencement of his retirement benefit, he shall be treated as a retired Participant.

5.02 DELAYED RETIREMENT BENEFIT

If a Participant does not retire on his Normal Retirement Date and does not elect to commence his benefits while employed, the Committee shall establish an account and maintain a separate accounting in the name of the Participant as of the first day of the

Plan Year following the Plan Year in which the Participant's Normal Retirement Date occurred. The Participant's account value as of such date shall be the Actuarial Equivalent of the Participant's Normal Form of Retirement Income as of such date.

(a) All such accounts shall be invested either (i) as part of the Trust Fund and shall not be segregated or invested as a separate unit; or (ii) if the Committee, with the approval of the Trustee determines, as part of a segregated fixed income fund, which shall consist of such assets as the Trustee deems appropriate. If implemented, all such separate accounts shall be invested and administered as a unit. The Committee shall promulgate whatever regulations it deems appropriate with respect to the implementation. of such fixed income fund.

(b) The Trust Fund (including the fixed income fund, if implemented) shall be valued at fair market value on the last day of each Plan Year and all accounts shall be adjusted as of such date to reflect a proportionate share of investment income and realized and unrealized profits and losses as applicable under either Subparagraph (a)(i) or (a)(ii).

(c) The benefits to which the Participant will be entitled upon his subsequent retirement, or, in the event of the Participant's death, the benefits to which the Beneficiary would be entitled, will normally be determined as of the last day of the Plan Year during which the Participant's employment terminated. Such benefits may, however, be determined by the Committee,

(i) as of any other date, in which event the Committee shall authorize the Trustee to value such Participant's account as of such date; or

(ii) as of the last day of the Plan Year before the Participant's termination of employment, but such determination by the Committee may only be exercised with the written consent of the Participant or, in the event of the Participant's death, his Beneficiary. In determining such benefits, the Committee must also consider changes in the market value of the Trust Fund.

(d) Subject to the provisions of Section 5.04, the Participant, or in the event of the Participant's death, his Beneficiary, shall be entitled to such retirement income (under the Normal Form of Retirement Benefit or such other options as provided under Article VII) as may be Actuarially Equivalent to such Participant's account value. Notwithstanding the above, in no event shall the Normal Form of Retirement Benefit provided under these provisions be less than the greater of 1) the Actuarial Equivalent of the Participant's Normal Form of Retirement Benefit determined as of the date such benefit was segregated or 2) the Participant's benefit determined based on his years of Credited Service and Average Monthly Compensation as of his Delayed Retirement Date.

5.03 EARLY RETIREMENT BENEFIT

A Participant shall, upon retirement on Early Retirement Date, receive the Actuarial Equivalent of his Accrued Benefit which shall commence on the date elected in accordance with Section 4.03 and shall be payable under the Normal Form of Retirement Benefit. The amount of such monthly retirement benefit shall, subject to the provisions of Section 5.04 hereof, be determined in the same manner as for retirement at his Normal Retirement Date, except that years of Credited Service and Average Monthly Compensation shall be determined as of his Early Retirement Date. The benefit shall be reduced based on the number of months by which the Participant's early retirement precedes his Normal Retirement Date using the factors in Section 1.02.

5.04 MAXIMUM RETIREMENT BENEFIT

The definition of certain words and phrases used in this Section 5.04 are contained in Section 5.04(d) and shall, for purposes of this Section 5.04, supersede definitions for such words and phrases contained in Article I. Defined terms are capitalized.

- (a) This Section, except for Section (a)(ii), applies regardless of whether any Participant is or has ever been a Participant in another qualified plan maintained by the Employer. If any Participant is or has ever been a Participant in another qualified plan maintained by the Employer, or a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, or an individual medical account, as defined in Section 415(1)(2) of the Code, which provides an Annual Addition, Section 5.04(b) is also applicable to that Participant's benefits.
 - (i) The Annual Benefit otherwise payable to a Participant at any time will not exceed the Maximum Permissible Amount. If the benefit the Participant would otherwise accrue in a Limitation Year would produce an annual benefit in excess of the Maximum Permissible Amount, the rate of accrual will be reduced so that the annual benefit will equal the Maximum Permissible Amount.
 - (ii) The Maximum Permissible Amount limitation is deemed satisfied if the Annual Benefit payable to a Participant is not more than \$1,000 multiplied by the Participant's number of Years of Service or portions thereof (not to exceed ten (10)) with the Employer, and the Employer has not at any time maintained a defined contribution plan, a welfare benefit plan as defined in Section 419(e) of the Code, or an individual medical account as defined in Section 415(1)(2) of the Code in which such Participant participated.

(b) (i) If a Participant is, or has ever been, covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Amount.

(ii) If the Employer maintains, or at any time maintained, one or more qualified defined contribution plans covering any Participant in this Plan, a welfare benefit fund, as defined in Section 419(e) of the Code, or an individual medical account as defined in Section 415(1)(2) of the Code, the sum of the Participant's Defined Contribution Fraction and Defined Benefit Fraction will not exceed 1.0 in any limitation year.

(iii) If in any Plan Year the sum of the Defined Benefit Fraction and the Defined Contribution Fraction shall exceed 1.0 with respect to any Participant, the Employer shall reduce any contribution to the defined contribution plan on behalf of such Participant to the extent necessary to lower the numerator of the Defined Contribution Fraction so that the sum of both fractions does not exceed 1.0.

(iv) Effective January 1, 2000, the provisions of this subsection (b) shall no longer be applicable.

(c) In the case of an individual who was a Participant in one or more defined benefit plans of the Employer as of the first day of the first Limitation Year beginning after December 31, 1986, the application of the limitations of this Article V shall not cause the Maximum Permissible Amount for such individual under all such defined benefit plans to be less than the individual's current Accrued Benefit. The preceding sentence applies only if such defined benefit plans met the requirements of Code Section 415, for all Limitation Years beginning before January 1, 1987.

For this purpose, a Participant's Accrued Benefit under the Plan, shall be determined as if the Participant had separated from service as of the close of the last Limitation Year beginning before January 1, 1987, expressed as an Annual Benefit within the meaning of Section 415(b)(2) of the Code.

In determining the amount of a Participant's current Accrued Benefit, the following shall be disregarded:

(i) any change in the terms and conditions of the Plan after May 5, 1986; and

(ii) any cost of living adjustments occurring after May 5, 1986.

(d) DEFINITIONS.

(i) ANNUAL ADDITIONS: The sum of the following amounts credited to a Participant's account for limitation year:

(A) Employer contributions;

(B) Employee contributions;

(C) Forfeitures, and

(D) Amounts allocated to an individual medical account, as defined in Section 415(1)(2) of the Code, which is part of a pension or annuity plan maintained by the Employer are treated as Annual Additions to a defined contribution plan. Also, amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits allocated to the separate account of a Key Employee, as defined in Section 419A(d)(3) of the Code, under a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, are treated as Annual Additions to a defined contribution plan.

(ii) ANNUAL BENEFIT: A retirement benefit under the Plan which is payable annually in the form of a straight life annuity. Except as provided below, a benefit payable in a form other than a straight life annuity must be adjusted to an actuarially equivalent straight life annuity before applying the limitations of this Section 5.04. Effective for Limitation Years beginning on or after January 1, 1995 the interest rate assumption used to determine actuarial equivalence will be determined using the assumptions set forth in Section 1.02(b) or an interest rate of 5% and the mortality table specified in Section 417(e)(3) of the Code, whichever produces the larger straight life annuity; and in the event the benefit is payable in a lump sum the 5% interest rate will be replaced by the rate on 30-year Treasury Constant Maturities for the month of November prior to the Plan Year of distribution. The Annual Benefit does not include any benefits attributable to Employee contributions or rollover contributions, or the assets transferred from a qualified plan that was not maintained by the Employer. No actuarial adjustment to the benefit is required for (a) the value of a

qualified joint and survivor annuity, (b) the value of benefits that are not directly related to retirement benefits (such as the qualified disability benefit, pre-retirement death benefits, and post-retirement medical benefits), and (c) the value of post-retirement cost-of-living increases made in accordance with Section 415(d) of the Code and Section 1.415-3(c)(2)(iii) of the Federal Income Tax Regulations.

(iii) **COMPENSATION:** A Participant's earned income, wages, salaries, and fees for professional services, and other amounts received for personal services actually rendered in the course of employment with the Employer maintaining the Plan (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips and bonuses), and excluding the following:

(A) Employer contributions to a plan of deferred compensation which are not included in the Employee's gross income for the taxable year in which contributed, or any distributions from a plan of deferred compensation;

(B) Amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;

(C) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

(D) Effective for limitation years beginning after December 31, 1997, earnings shall include (i) any elective deferral as defined in Code Section 402(g)(3), and (ii) any amount which is contributed or deferred by the Employee at the election of the employee and which is not includible in the gross income of the employee by reason of Code Section 125, or, effective January 1, 2001, any amounts not includible in the gross income of the employee by reason of Section 132(f)(4) of the Code.

Compensation for any limitation year is the compensation actually paid or includible in gross income during such year.

(iv) DEFINED BENEFIT DOLLAR LIMITATION: \$90,000. Effective on January 1, 1988, and each January thereafter, the \$90,000 limitation above will be automatically adjusted by multiplying such limit by the cost. of living adjustment factor prescribed by the Secretary of the Treasury under

Section 415(d) of the Code in such manner as the Secretary shall prescribe. The new limitation will apply to Limitation Years ending within the calendar year of the date of the adjustment.

(v) DEFINED BENEFIT FRACTION: A fraction, the numerator of which is the sum of the Participant's projected Annual Benefits under all the defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of one hundred twenty-five percent (125%) of the dollar limitation determined for the Limitation Year under Sections 415(b) and (d) of the Code and in accordance with Section 5.04(d)(x)(B) below or one hundred forty percent (140%) of the Participant's Highest Average Compensation, including any adjustments under Section 415(b) of the Code.

Notwithstanding the above, if the Participant was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than one hundred twenty-five percent (125%) of the sum of the Annual Benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plans after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Code Section 415 for all Limitation Years beginning before January 1, 1987.

Effective January 1, 2000, the provisions of this subsection (v) shall no longer be applicable.

(vi) DEFINED CONTRIBUTION FRACTION: A fraction, the numerator of which is the sum of the Annual Additions to the Participant's account under all the defined contribution plans (whether or not terminated) maintained by the Employer for the current and all prior Limitation Years, (including the annual additions attributable to the Participant's nondeductible Employee contributions to this and all other defined benefit plans, (whether or not terminated) maintained by the Employer, and the Annual Additions attributable to all welfare benefit funds, as defined in Section 419(e) of the

Code or individual medical accounts, as defined in Section 415(1)(2) of the Code, maintained by the Employer), and the denominator of which is the sum of the Maximum Aggregate Amounts for the current and all prior Limitation Years of service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer).

The Maximum Aggregate Amount in any Limitation Year is the lesser of one hundred twenty-five percent (125 %) of the dollar limitation in effect under Section 415(c)(1)(A) of the Code or thirty-five percent (35%) of the Participant's Compensation for such year.

The Annual Addition for any limitation year beginning before January 1, 1987, shall not be recomputed to treat all Employee contributions as Annual Additions.

Effective January 1, 2000, the provisions of this subsection (vi) shall no longer be applicable.

(vii) EMPLOYER: For purposes of this Article, Employer shall mean the Employer that adopts this Plan, and all members of a controlled group of corporations (as defined in Section 414(b) of the Code, as modified by Section 415(h)), all commonly controlled trades or businesses (as defined in

Section 414(c) as modified by Section 415(h)), or affiliated service groups (as defined in Section 414(m)) of which the adopting Employer is a part, and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.

(viii) HIGHEST AVERAGE COMPENSATION: The average compensation for the three consecutive Years of Service with the Employer that produces the highest average.

(ix) LIMITATION YEAR: The Plan Year.

(x) MAXIMUM PERMISSIBLE AMOUNT:

(A) The lesser of the Defined Benefit Dollar Limitation or one hundred percent (100%) of the Participant's Highest Average Compensation.

(B) If the Participant has less than ten (10) years of participation with the Employer, the Defined Benefit Dollar Limitation is reduced by

one-tenth (1/10) for each year of participation (or part thereof) less than ten (10).

To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan. If the Participant has less than ten (10) Years of Credited Service with the Employer, the Compensation limitation is reduced by one-tenth (1/10) for each Year of Credited Service (or part thereof) less than ten (10). The adjustments of this

Section (B) shall be applied in the denominator of the Defined Benefit Fraction based upon Years of Service. Years of Service shall include future years occurring before the Participant's Normal Retirement Age. Such future years shall include the year which contains the date the Participant reaches Normal Retirement Age, only if it can be reasonably anticipated that the Participant will receive a Year of Credited Service for such year.

(C) If the annual benefit of the Participant commences before the Participant's Social Security Retirement Age, but on or after age sixty-two (62), the Defined Benefit Dollar Limitation as reduced above, if necessary, shall be determined as follows:

(1) If a Participant's Social Security Retirement Age is sixty-five (65), the dollar limitation for benefits commencing on or after age sixty-two (62) is determined by reducing the Defined Benefit Dollar Limitation by five ninths (5/9) of one percent (1%) for each month by which benefits commence before the month in which the participant attains age sixty-five (65).

(2) If a Participant's Social Security Retirement Age is greater than sixty-five (65), the dollar limitation for benefits commencing on or after age sixty-two (62) is determined by reducing the Defined Benefit Dollar Limitation by five ninths (5/9) of one percent (1%) for each of the first thirty-six

(36) months and five twelfths (5/12) of one percent (1 %) for each of the additional months (up to twenty-four (24) months) by which benefits commence before the month of the Participant's Social Security Retirement Age.

(D) If the Annual Benefit of a Participant commences prior to age sixty-two (62), the Defined Benefit Dollar Limitation shall be the actuarial equivalent of an Annual Benefit beginning at age sixty-two (62), as determined above, reduced for each month by which benefits commence before the month in which the Participant attains age sixty-two (62). Effective for Limitation Years beginning on or after January 1, 1995, to determine actuarial equivalence, the assumption specified in Section 1.02(c) or an interest rate of 5% per annum and the mortality table specified in Code Section 417(e)(3), whichever produces the larger reduction in the Defined Benefit Dollar Limitation shall be used.

(E) If the Annual Benefit of a Participant commences after the Participant's Social Security Retirement Age, the Defined Benefit Dollar Limitation, as reduced in (B) above, if necessary, shall be adjusted so that it is the actuarial equivalent of an Annual Benefit of such dollar limitation beginning at the Participant's Social Security Retirement Age. Effective for Limitation Years beginning on or after January 1, 1995, to determine actuarial equivalence, the assumption set forth in Section 1.02(d) or an interest rate of 5% and the mortality table specified in Code Section 417(e)(3) whichever produces the smaller increase in the Defined Benefit Dollar Limitation shall be used.

(xi) PROJECTED ANNUAL BENEFIT: The Annual Benefit as defined in Section (d)(ii), to which the Participant would be entitled under the terms of the Plan assuming:

(A) The Participant will continue employment until Normal Retirement Age under the Plan (or current age, if later), and

(B) the Participant's Compensation for the current Limitation Year and all other relevant factors used to determine benefits under the Plan will remain constant for all future Limitation Years.

(xii) SOCIAL SECURITY RETIREMENT AGE: Age sixty-five (65) in the case of a Participant attaining age sixty-two (62) before January 1, 2000 (i.e., born before January 1, 1938), age sixty-six (66) for a Participant attaining age sixty-two (62) after December 31, 1999, and before January 1, 2017 (i.e., born after December 31, 1937, but before January 1, 1955), and age sixty-

seven (67) for a Participant attaining age sixty-two (62) after December 31, 2016 (i.e., born after December 31, 1954).

- (xiii) YEAR OF PARTICIPATION: The Participant shall be credited with a Year of Participation (computed to fractional parts of a year) for each accrual Computation Period for which the following conditions are met: (1) The Participant is credited with a Period of Service for benefit accrual purposes, required under the terms of the Plan in order to accrue a benefit for the accrual Computation Period, and (2) the Participant is included as a Participant under the eligibility provisions of the Plan for at least one (1) day of the accrual Computation Period. If these two conditions are met, the portion of a Year of Participation credited to the Participant shall equal the amount of benefit accrual service credited to the Participant for such accrual Computation Period. A Participant who is permanently and totally disabled within the meaning of Plan Section 9.06 for an accrual Computation Period shall receive a Year of Participation with respect to that period. In addition, for a Participant to receive a Year of Participation (or part thereof) for an accrual Computation Period, the Plan must be established no later than the last day of such accrual Computation Period. In no event will more than one Year of Participation be credited for any 12-month period.

5.05 REQUIRED BENEFIT COMMENCEMENT

Notwithstanding the Delayed Retirement provisions above, each Participant who remains employed beyond his Required Beginning Date (as defined in Article VIII), must begin to receive the minimum distributions required under Article VIII. Such Participant's benefit shall be recalculated for each calendar year following the initial required distribution on the basis of his Average Monthly Compensation and Credited Service as of each January 1, but in no event less than the benefit amount paid prior to the recalculation.

ARTICLE VI

JOINT AND SURVIVOR AND PRERETIREMENT DEATH BENEFITS

6.01 AUTOMATIC JOINT AND SURVIVOR ANNUITY

- (a) Unless an optional form of benefit is selected, as described in Article VII, pursuant to a qualified election described in Section 6.02, within the 90-day period ending on the Annuity Starting Date, a married Participant's vested Accrued Benefit will be paid in the form of an automatic joint and survivor annuity and an unmarried Participant's vested Accrued Benefit will be paid in the form of an immediate life annuity with 120 monthly payments certain. The Participant may elect to have such annuity distributed upon attainment of the earliest retirement age under the Plan.
- (b) An "automatic joint and survivor annuity" is an immediate non transferable annuity for the life of the Participant with a survivor annuity for the life of the Spouse which is fifty percent (50%) of the amount of the annuity which is payable during the joint lives of the Participant and the Spouse and which is the Actuarial Equivalent of the Normal Form of Retirement Benefit.
- (c) A Participant's "earliest retirement age" is the earliest date on which, under the Plan, the Participant could elect to receive retirement benefits.

6.02 QUALIFIED ELECTION

A Participant may waive the automatic joint and survivor annuity

described in Section 6.01 only if:

- (a) the Participant's Spouse consents in writing to the election;
- (b) with the exception of a life annuity the election designates a specific alternate Beneficiary, including any class of Beneficiaries or any contingent Beneficiaries, which may not be changed without spousal consent, or the Spouse expressly permits designations by the Participant without any further spousal consent;
- (c) the Spouse's consent acknowledges the effect of the election; and
- (d) the Spouse's consent is witnessed by a plan representative or notary public. Additionally, a Participant's waiver of the qualified joint and survivor annuity will not be effective unless the election designates a form of benefit payment

which may not be changed without spousal consent, or the spouse expressly permits designations by the participant without any further spousal consent.

If it is established to the satisfaction of the Committee that such written consent may not be obtained because there is no Spouse or the Spouse cannot be located, a waiver will be deemed a qualified election.

Any consent by a Spouse obtained under this provision (or establishment that the consent of a Spouse may not be obtained) shall be effective only with respect to such Spouse. A consent that permits designations by the Participant without any requirement of further consent by such Spouse must acknowledge that the Spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the Spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the Spouse at any time prior to the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this provision shall be valid unless the Participant has received notice as provided in subsection (e) below.

(e) The Committee shall provide each Participant, no less than thirty (30) days and no more than ninety (90) days prior to the payment commencement date, a written explanation of:

- (i) the terms and conditions of an automatic joint and survivor annuity;
- (ii) the Participant's right to make and the effect of an election to waive the automatic joint and survivor annuity form of benefit;
- (iii) the rights of a Participant's Spouse;
- (iv) the right to make, and the effect of, a revocation of a previous election to waive the automatic joint and survivor annuity; and
- (iv) the relative values of the various optional forms of benefit under the Plan.

The benefit commencement date for a distribution in a form other than a Qualified Joint and Survivor Annuity may be less than 30 days after receipt of the written explanation of the Qualified Joint and Survivor Annuity, provided: (i) the Participant has been provided with information that clearly indicates that the employee has at least 30 days to consider whether to waive the Qualified Joint and Survivor Annuity and elect (with spousal consent) to a form of distribution

other than a Qualified Joint and Survivor Annuity; (ii) the Participant is permitted to revoke any affirmative distribution election at least until the benefit commencement date or, if later, at any time prior to the expiration of the 7-day period that begins the day after the explanation of the Qualified Joint and Survivor Annuity is provided to the Participant; and (iii) the benefit commencement date is a date after the date the written explanation was provided to the Participant.

6.03 QUALIFIED PRERETIREMENT SURVIVOR ANNUITY

(a) If a vested Participant dies after the earliest retirement age, but prior to the Annuity Starting Date, such Participant's surviving Spouse, if any, will receive the same benefit that would be payable if the Participant had retired with an immediate automatic joint and survivor annuity, as defined in Section 6.01(b), payable on the day before such Participant's death.

(b) The surviving Spouse may elect to commence payment under such annuity on the first day of any month after the Participant's death. The actuarial value of benefits which commence later than the date on which payments would have been made to the surviving Spouse under an automatic joint and survivor annuity commencing at the Participant's earliest retirement age under the Plan in accordance with this provision shall be adjusted to reflect the delayed payment.

(c) If a vested Participant dies on or before the earliest retirement age, the Participant's surviving Spouse (if any) will receive the same benefit that would be payable if the Participant had:

(i) separated from service on the date of death (or date of separation from service, if earlier),

(ii) survived to the earliest retirement age,

(iii) retired with an immediate qualified joint and survivor annuity at the earliest retirement age, and

(iv) died on the day after the earliest retirement age.

(d) Subject to the provisions of Section 8.04 of the Plan, a surviving Spouse will begin to receive payments at the Participant's earliest retirement age. Benefits commencing after the Participant's earliest retirement age will be the Actuarial Equivalent of the benefit to which the surviving Spouse would have been entitled

if benefits had commenced at the earliest retirement age under an immediate automatic joint and survivor annuity.

(e) Before the commencement of a retirement benefit, upon the death of

(i) a Vested Participant subsequent to termination of employment

(ii) a Retired Participant who had elected to defer the commencement of his retirement benefit, or (iii) a Participant for whom the commencement of benefits had been deferred, an automatic joint and survivor annuity with 50% of such annuity continued to his Spouse commencing on the earliest commencement date. In no event shall the benefit provided to the Spouse be . benefit which may be provided from the applicable portion of e accumulation value under a deferred annuity payable upon the Participant's death before the commencement of a retirement benefit. For Retired Participants in accordance with Subsection (ii) above, the applicable portion shall be 100% of the accumulation value and for Participants in accordance with Subsection (i) and (iii) above, 50% of the accumulation value.

In lieu of the benefits described in the above paragraph, the Participant may elect to provide for the payment of the portion of the accumulation value under the deferred annuity payable upon death to any designated Beneficiary, provided the Participant's Spouse consents to such election. In the absence of a surviving Spouse or designated Beneficiary, the death benefit shall be paid to the Participant's estate. In the event of the Participant's death before the purchase of the annuity contract, benefits will be provided as if the annuity had been purchased on the day before the Participant's death.

6.04 QUALIFIED ELECTION

(a) A Participant may waive the 100% joint and survivor annuity with his Spouse as Beneficiary in accordance Section 6.03(e) only if:

(i) the Participant's Spouse consents in writing to the election;

(ii) the election designates a specific alternate Beneficiary, including any class of Beneficiaries or any contingent Beneficiaries, which may not be changed without spousal consent, or the Spouse expressly permits designations by the Participant without any further spousal consent;

(iii) the Spouse's consent acknowledges the effect of the election; and

(iv) the Spouse's consent is witnessed by a plan representative or notary public.

If it is established to the satisfaction of the Committee that such written consent may not be obtained because there is no Spouse or the Spouse cannot be located, a waiver will be deemed a qualified election. Any consent by a Spouse obtained under this provision (or establishment that the consent of a Spouse may not be obtained) shall be effective only with respect to such Spouse. A consent that permits designations by the Participant without any requirement of further consent by such Spouse must acknowledge that the Spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the Spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the Spouse at any time prior to the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this provision shall be valid unless the Participant has received notice as provided in 6.05 below.

6.05 NOTICE REQUIREMENTS

The Committee shall provide each Participant within the applicable period for such Participant, a written explanation of the qualified preretirement survivor annuity in such terms and in such a manner as would be comparable to the explanation provided for meeting the requirements applicable to an automatic joint and survivor annuity in Section 6.02(e). The applicable period for a Participant is whichever of the following periods ends last:

- (a) the period beginning with the first day of the Plan Year in which the Participant attains age thirty-two (32) and ending with the close of the Plan Year preceding the Plan Year in which the Participant attains age thirty-five (35);
- (b) a reasonable period ending after the individual becomes a Participant;
- (c) a reasonable period ending after this Article first applies to the Participant.

Notwithstanding the foregoing, notice must be provided within a reasonable period ending after separation of service in case of a Participant who separates from service before attaining age thirty-five (35).

For purposes of the preceding paragraph, a reasonable period ending after the enumerated events described in (b) and (c) is the end of the two (2) year period beginning one (1) year prior to the date the applicable event occurs and ending one (1) year after that date. In the case of a Participant who separates from service before the Plan Year in which age thirty-five (35) is attained, notice shall be provided within the two (2) year period

beginning one (1) year prior to separation and ending one (1) year after separation. If such a Participant thereafter returns to employment with the Employer, the applicable period for such Participant shall be redetermined.

ARTICLE VII

OPTIONAL METHODS OF RETIREMENT PAYMENTS

7.01 OPTIONAL ELECTIONS

Each vested Participant whose Accrued Benefit has a present value in excess of three thousand five hundred dollars (\$3,500), shall have the right, at any time and from time to time prior to the commencement of a retirement benefit hereunder, to elect to have such retirement benefit payable under any one of the options hereinafter set forth in this Section in lieu of the retirement benefit otherwise payable under any of the provisions of the Plan. The amount of any optional retirement benefit shall be the Actuarial Equivalent of the Normal Form of Retirement Benefit otherwise payable to such Participant. The Participant shall make such an election by written request to the Committee and such an election will be subject to the spousal consent requirement of Article VI.

- (a) JOINT AND SURVIVOR OPTION: A married Participant may elect to receive a monthly retirement benefit during the lifetime of the Participant and have either fifty percent (50%) or one hundred percent (100%) of such monthly retirement benefit continued after the Participant's death to a Contingent Annuitant or Spouse during the remaining lifetime of the Contingent Annuitant or Spouse within the restrictions contained in Section 8.04(b)(ii).
- (b) LUMP-SUM OPTION: Prior to October 1, 1995, a Participant who is eligible for Early or Normal Retirement may elect to receive, in lieu of any other benefits hereunder, a lump sum payment representing the Actuarial Equivalent of the Participant's Accrued Benefit under the Plan. On or after October 1, 1995, a Participant who is eligible for Early or Normal Retirement may elect to receive a lump sum payment representing the Actuarial Equivalent of the Participant's Accrued Benefit under the Plan as of September 30, 1995, in addition to the Participant's Accrued Benefit earned on and after October 1, 1995 in another form of payment provided under the Plan.
- (c) PERIOD CERTAIN OPTION: A Participant may elect to receive a monthly retirement benefit during the Participant's lifetime, with payments guaranteed for one hundred eighty (180) months. Should a Participant who has elected this option die before receiving the specified number of payments, such payments shall be continued to a Beneficiary designated by the Participant until the total payments made are equal to the guaranteed number.

(d) A Participant may elect to receive a monthly retirement benefit under any optional form available under the Plan prior to the effective date of this restated Plan of that portion of his benefit as accrued through such effective date.

Notwithstanding the above, the Joint and 100% Survivor Option as described in subsection (a) hereof and the one hundred eighty (180) month Period Certain Option as described in subsection (c) hereof are not available to Participants who are eligible for a Disability Retirement.

7.02 LIMITATION ON OPTIONAL ELECTIONS

(a) Payments under any optional retirement benefit elected under the provisions of Section 7.01 hereof shall be subject to the distribution period restrictions of Sections 8.03 and 8.04.

(b) A Participant may not elect irrevocably before retirement any option which would with certainty pay all or part of his non-forfeitable interest to a designated Beneficiary after the Participant's death.

(c) Any annuity contract distributed by the Plan must be nontransferable.

(d) Once distributions under an optional form of benefit have begun, such form of payment shall be irrevocable.

(e) If a Participant's benefits are required to commence in accordance with Article VIII, such Participant shall make an irrevocable election as to the optional form of payment. All such benefits shall be paid directly from the Trust Fund. Subject to Section 6.01 the options available will include options available to retirees in accordance with Section 7.01. Upon subsequent termination of employment for any reason, the optional form previously elected will remain in effect.

(f) The distribution of a lump sum payment or an annuity to the

Participant or his Beneficiary will constitute the complete discharge of all obligations of the Plan.

7.03 DEFERRED ANNUITY PURCHASE

A deferred annuity shall be purchased on behalf of

(a) a Vested Participant;

(b) a Retired Participant who makes an election to defer commencement of his retirement benefit in accordance with Section 4.07 or 7.02(e); and

(c) a Participant's Spouse entitled to deferred benefits in accordance with Article VIII or who makes an election to defer commencement in accordance with Article VIII.

The retirement benefit under the deferred annuity will initially be payable under the Normal Form of Retirement Benefit or one of the optional forms under Section 7.01, as elected by the Participant. Subject to Section 6.01, a Participant may, before the commencement of his retirement benefit, change such optional form to any other form of retirement benefit available under the annuity, including those available under Section 7.01 and the Normal Form of Retirement Benefit, by filing a request with the insurance company and complying with the terms and provisions of such annuity.

If a deferred annuity is purchased on behalf of a Participant or Beneficiary, a lump sum distribution shall not be permitted at any later date.

ARTICLE VIII

REQUIRED COMMENCEMENT OF BENEFITS

8.01 GENERAL RULES

The terms of the Watts Industries, Inc. Pension Plan shall apply in determining required distributions as required under Section 401(a)(9) of the Code.

ARTICLE IX

BENEFITS ON TERMINATION OF EMPLOYMENT AND RETIREMENT UPON DISABILITY

9.01 TERMINATION GENERALLY

All rights of a Participant to all benefits under the Plan will cease upon his termination of employment with the Employer prior to satisfaction of the conditions for retirement set forth in Article IV of the Plan, for a reason other than death, except as otherwise provided in the following Sections of this Article. The only benefits of any kind payable under any of the provisions of the Plan in the event of the death of a Participant prior to commencement of his retirement benefit are those provided in Article VI and Article VII hereof.

9.02 CONDITIONS FOR VESTED RETIREMENT BENEFITS

If a Participant is in the employment of the Employer on the date he attains Normal Retirement Age, he shall have a one hundred percent (100%) vested interest in his Accrued Benefit. If the Participant terminates employment with the Employer at any time prior to his Normal or Early Retirement Date, other than by death or Disability, the Participant shall have a vested interest in his Accrued Benefit equal to the percentage determined in accordance with the following schedule on the basis of his

Years of Service:

NUMBER OF YEARS	PERCENTAGE OF ACCRUED BENEFIT
Less than 5 full years	0%
5 full years	100%

9.03 AMOUNT OF VESTED RETIREMENT BENEFIT

(a) A terminated vested Participant shall receive his Accrued Benefit, determined as provided in this Section 9.03, commencing on his Normal Retirement Date. The amount of monthly retirement benefit payable shall be determined in the manner provided in Section 5.01 with years of Credited Service and Average Monthly Compensation determined as of the date of his termination of employment.

(b) If a Participant satisfies the requirement for the commencement of benefits prior to his Normal Retirement Date in accordance with the provisions of Section 4.03(b) the amount of such pension shall be the vested amount provided in Section 9.02 reduced in accordance with the provisions of Section 1.02.

9.04 SINGLE SUM PAYMENT OF VALUE OF VESTED RETIREMENT BENEFITS

(a) Upon a Participant's termination of Service, the Committee shall direct the Trustee to pay him, in a single sum, an amount equal to the Actuarial Equivalent value, as of the date of payment of the vested Accrued Benefit payable in lieu of any other form of such retirement benefit, provided the amount of such Actuarial Equivalent is not in excess of \$3,500 (\$5,000, effective October 1, 2001). The Actuarial Equivalent value of such cash out shall be determined in accordance with the provisions of Section 1.02 of the Plan. The nonvested portion of a Participant's Accrued Benefit, if any, shall be treated as a forfeiture upon such cash out. For purposes of this Section, if the Actuarial Equivalent value of a Participant's vested Accrued Benefit is zero, the Participant shall be deemed to have received a distribution of such vested benefit.

(b) If a Participant receives or is deemed to receive a distribution pursuant to this Section at a time when his Accrued Benefit was not fully vested and the Participant resumes covered employment under the Plan, he shall have the right to restore his Employer-derived Accrued Benefit (including all optional forms of benefits and subsidies relating to such benefits) to the extent forfeited upon the repayment to the Plan of the full amount of the distribution plus interest, compounded annually from the date of distribution at the rate of five percent (5%). Such repayment must be made not later than five (5) years after the first date on which the Participant is subsequently reemployed by the Employer.

(c) If a Participant receives or is deemed to receive a cashout under

paragraph (a) above, then all Periods of Service for which he receives payment shall be disregarded for purposes of benefit accrual unless he makes the repayment described in paragraph (b) above.

9.05 PARTICIPANT AND SPOUSAL CONSENT FOR IMMEDIATELY DISTRIBUTABLE BENEFITS

If the present value of a Participant's vested Accrued Benefit exceeds (or at any time of any prior distribution exceeded) three thousand five hundred dollars (\$3,500), and the Accrued Benefit is immediately distributable, the Participant and the Participant's Spouse (or where either the Participant or the Spouse has died, the survivor) must consent to any distribution of such Accrued Benefit. The consent of the Participant and the Participant's Spouse shall be obtained in writing within the 90-day period ending on the Annuity Starting Date. The Committee shall notify the Participant and the Participant's Spouse of the right to defer any distribution until the Participant's Accrued Benefit is no longer immediately distributable. Such notification shall include a general description of the

material features, and an explanation of the relative values of, the optional forms of benefit available under Article VII of the Plan in a manner that would satisfy the notice requirements of Code Section 417(a)(3), and shall be provided no less than thirty (30) days and no more than ninety (90) days prior to the Annuity Starting Date. Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of an Automatic Joint and Survivor Annuity, described in Section 6.01 of the Plan, while the Accrued Benefit is immediately distributable. Neither the consent of the Participant nor the Participant's Spouse shall be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code. An Accrued Benefit is "immediately distributable" if any part of the Accrued Benefit could be distributed to the Participant (or surviving Spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or age sixty-two (62).

Notwithstanding the foregoing, the failure of a Participant and Spouse to consent to a distribution while a benefit is immediately distributable shall be deemed to be an election to defer commencement of any benefit sufficient to satisfy this Section.

9.06 DISABILITY TERMINATION

- (a) A Participant shall be eligible for a Disability Retirement as defined in Section 4.04 if he has incurred, through some unavoidable cause, a total and permanent Disability as defined in Article I. Disability shall be deemed to have resulted from an unavoidable cause unless it was contracted, suffered, or incurred while the Participant was engaged in a willful criminal enterprise or resulted from a deliberate self-inflicted injury.
- (b) Upon a Participant's retirement under this Section 9.06, the Participant shall be automatically entitled to receive a monthly retirement benefit, commencing on the first day of the month following his date of Disability, and continuing on the first day of each month thereafter during his lifetime. Such monthly retirement benefit shall be equal to (i) a benefit determined in the same manner as the monthly retirement benefit payable upon retirement at the Normal Retirement Date of the Participant, with Average Monthly Compensation and Credited Service determined as of the date of his Disability Retirement but reduced using the factors described in Article I for Early Retirement, or (ii) if the Disability Retirement commences prior to January 1, 1995, \$200 multiplied by his full Years of Service, if greater than (i) above. Upon the election of the Participant, any pension payable under this Section 9.06 may be paid in an optional method of retirement payment as provided in Section 7.01 hereof, subject to the limitations

therein for Disability Retirement and subject to the spousal consent provisions of Article VI.

- (c) Benefits payable under this Section 9.06 shall be in lieu of any benefits payable under any other Section of this Plan; provided however, any loss of rights to benefits under this Section 9.06 shall not deprive a Participant of any benefits that he might otherwise be entitled to receive under the Plan.
- (d) If a Participant loses all rights to any benefits under this Section 9.06 because, prior to his Normal Retirement Date, his total and permanent Disability has ceased, and if such Participant resumes employment for the Employer immediately after the cessation of such Disability, then automatically after such resumption of employment he shall resume participation in the Plan. The benefits to which such Participant will subsequently be entitled, however, will be reduced by an amount which is the Actuarial Equivalent of any benefits the Participant has received.

ARTICLE X

FUNDING

10.01 CONTRIBUTIONS BY PARTICIPANTS

No contributions by Participants will be required or permitted under the Plan.

10.02 CONTRIBUTIONS BY EMPLOYER

- (a) The cost of all benefits payable under the Plan will be borne by the Employer. The Employer shall establish and maintain a policy for funding such cost so that such policy causes the Plan to be funded consistent with Federal law. Contributions by the Employer shall be paid to a Trustee or Life Insurance Company at such times and in such amounts as shall be determined by the Board acting under the advice of an actuary, who shall be an actuary enrolled by the United States Government in accordance with Subtitle C of Title III of the Employee Retirement Income Security Act of 1974, as amended. All contributions shall be irrevocable and may be used only for the benefit of the Participants and their Contingent Annuitants, Spouses and/or Beneficiaries. The actuarial liabilities for benefits under the Plan that may be forfeited in the event of severance of employment, death, or for any other reason, shall be used in the determination of Employer Contributions made immediately following such forfeiture to effect a reduction in such contributions and shall in no event be applied to increase any of the benefits under the Plan.
- (b) In addition to its contributions, the Employer may elect to pay all the administrative expenses of the Plan and all fees and retainers of the Plan's Trustee, actuary, accountant, counsel, consultant, administrator, or other specialist so long as the Plan or Trust Fund remains in effect. If the Employer does not pay all or part of such expenses, the Trustee shall pay these expenses from the Trust Fund. All expenses directly relating to the investments of the Trust Fund, including taxes, brokerage commissions, and registration charges must be paid from the Trust Fund.

10.03 FUND

The Employer, in order to establish a fund for payment of benefits under the Plan, has entered into a Trust Agreement with the Trustee, whereby the contributions are held, invested and applied to the payment of benefits hereunder. The Trust Agreement shall contain such powers and reservations as to investments, reinvestment, control and

disbursements of the funds, and such other provisions consistent with the provisions of the Plan and its nature and purposes as shall be agreed upon and set forth therein. The Trustee shall, in accordance with the terms of such agreement, accept and receive all sums of money paid to it from time to time by the Employer and shall hold, invest, reinvest, manage and administer such moneys and the increment, increase, earnings and income thereof as a fund for the exclusive benefit of the Participants and their Contingent Annuitants, Spouses and/or Beneficiaries. In no event shall it be possible at any time prior to the satisfaction of all liabilities, fixed or contingent, under the Plan for any part of the assets of the Trust Fund, whether principal or income, to be used for, or diverted to, purposes other than those stated herein. The Trustee shall not have the power to inquire into the correctness of the amounts tendered to it as required by the Plan, nor to enforce the payment of any contributions hereunder.

ARTICLE XI

ADMINISTRATION

11.01 ASSIGNMENT OF ADMINISTRATIVE AUTHORITY

The Board shall appoint a Committee the members of which shall be officers or other Employees, or any other individuals, who shall be appointed by and serve at the pleasure of the Board. A member may resign, by written resignation to the Board and Committee. Vacancies arising by virtue of resignation, death or otherwise, shall be filled by the Board. The members of the Committee shall exercise their duties on the Committee as fiduciaries, having due regard for the standards that a prudent man would exercise under similar circumstances. No member shall participate in the discussion or vote on any matter regarding his own benefit.

11.02 ORGANIZATION AND OPERATION OF COMMITTEE

The Committee shall hold meetings upon such notice, at such place or places and at such time or times, as the Committee may, from time to time, determine. The Committee shall act by a majority of its members at the time in office, and such action may be taken either by a vote at a meeting or in writing without a meeting. The Committee may authorize any one or more of its members to execute any document or documents on behalf of the Committee, in which event the Committee shall notify the Trustee in writing of such action and the name or names of its member or members so designated. Committee directions to the Trustee must be performed in a manner consistent with the terms of the applicable Trust Agreement. The Committee may adopt such bylaws and regulations as it deems desirable for the conduct of its affairs. It may appoint such agents who need not be members of the Committee, as it may deem necessary for the effective performance of its duties, and may delegate to such agents such powers and duties, whether ministerial or discretionary, as the Committee may deem expedient or appropriate. The compensation of such agents shall be fixed by the Committee within limits set by the Board. Any delegates appointed by the Committee pursuant to this Section 11.02 shall enjoy and be bound by the same powers and duties accorded to the Committee by Section 11.03.

11.03 POWERS AND DUTIES

The Committee shall administer the Plan in accordance with its terms and pursuant to uniform rules of procedure; it shall have full discretionary authority and responsibility for administration of the Plan. The Committee shall interpret the Plan and shall determine eligibility to participate and, all questions arising in the administration, interpretation, and application of the Plan. All disbursements of benefits under the Plan by the Trustee shall

be made upon, and in accordance with, the written instructions of the Committee. The decisions by the Committee upon all matters within the scope of its authority shall be conclusive and binding on all persons.

11.04 RECORDS AND REPORTS OF COMMITTEE

The Committee shall keep a record of all its proceedings and acts, and shall keep all such books of account, records, and other data as may be necessary for proper administration of the Plan. The Committee shall notify the Board of any action taken by the Committee and, when required, shall notify any other interested person or persons.

11.05 PAYMENT OF EXPENSES

The members of the Committee shall serve without compensation for services as such, but the Employer shall pay or reimburse the Committee for all expenses reasonably incurred by the Committee, including the compensation of its agents.

11.06 DETERMINATION OF BENEFITS

- (a) The Committee shall establish rules and procedures to . be followed by the Participants, Spouses and Contingent Annuitants, in filing applications for benefits and for furnishing and verifying proofs necessary to establish age, Service, Credited Service, Average Monthly Compensation, and any other matters required in order to establish the right to benefits in accordance with the Plan.
- (b) The Committee shall receive all applications for benefits. Upon receipt by the Committee of such an application, it shall determine all facts which are necessary to establish the right of the applicant to benefits under the provisions of the Plan and the amount thereof as herein provided. Upon request, the Committee will afford any applicant the right of a hearing with respect to any finding of fact or determination.
- (c) To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee of all matters relating to the retirement, death or other cause for termination of employment of all Participants and such other pertinent facts as the Committee may require; and the Committee shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's administration of the Fund.

11.07 ADDITIONAL COMMITTEE DUTIES

The Committee shall prepare and distribute to the Participants, at the expense of the Employer, and in such a manner as it shall deem appropriate, information concerning the Plan.

11.08 RELIANCE ON REPORTS

Members of the Committee and the Employer shall be entitled to rely upon all tables, valuations, certificates and reports furnished by any actuary designated by the Board, upon all certificates and reports made by an accountant selected or approved by the Board, upon all opinions by any counsel selected or approved by the Committee and upon all opinions by any counsel selected or approved by the Board, and the members of the Committee and the Employer and its, officers and the Trustee shall be fully protected in respect to any action taken or suffered in good faith reliance upon the advice or opinion of any such actuary, accountant, physician or counsel, provided such actuary, accountant, physician or counsel was selected in a prudent manner, and all action so taken or suffered shall be conclusive upon each of them and upon all Participants, Contingent Annuitants, Spouses and/or Beneficiaries.

11.09 LIABILITY AND INDEMNIFICATION

The members of the Committee shall act as fiduciaries with respect to all of the provisions of the Plan, except with regard to the holding, investing, reinvesting and managing the assets of the Fund, and shall act with respect to all matters within their scope of authority as prudent men would act under like circumstances. The Trustee designated hereof shall be a fiduciary or fiduciaries solely with regard to the holding, investing, reinvesting and managing of the assets of the Fund. Nevertheless, the Employer shall indemnify the members of the Committee with regard to any expense the Trustee may incur in defending a suit arising out of the performance of the duties imposed upon them by this Plan or any liability that may arise with respect to the payment of any judgment or settlement arising from any responsibility imposed by this Plan, except' for any willful misconduct or any act done in bad faith. The Employer shall also indemnify any member of the Board and any other Employee of the Employer with regard to any expense they may incur in defending a suit arising out of the performance of the duties imposed upon them by this Plan or any liability that may arise with respect to the payment of any judgment or settlement from any responsibility imposed by this Plan, except for any willful misconduct or any act done in bad faith.

11.10 LIMITATION OF POWERS OF COMMITTEE

The Committee shall have no power in any way to modify, alter, add to or subtract from any provision of the Plan without formal Plan amendment. Further, actions taken or instructions given by the Committee shall be uniform in their nature and applicable to all Participants in a non-discriminatory manner.

11.11 CLAIM PROCEDURE FOR BENEFITS

- (a) Any application for benefits or request for specific information with respect to benefits under the Plan, must be made to the Committee in writing by a Participant or his Beneficiary. Oral communications will not be recognized as a formal request or claim for benefits.
- (b) The Committee shall provide adequate notice in writing to any Participant or Beneficiary whose claim for benefits under the Plan has been denied (i) setting forth the specific reasons for such denial, specific references to pertinent plan provisions, a description of any material and information which had been requested but not received by the Committee, and (ii) advising such Participant or Beneficiary that any appeal of such adverse determination must be in writing to the Committee, within such period of time designated by the Committee but, until changed, not more than sixty (60) days after receipt of such notification, and must include a full description of the pertinent issues and basis of claim.
- (c) If the Participant or Beneficiary fails to appeal such action to the Committee in writing within the prescribed period of time, the Committee's adverse determination shall be final.
- (d) If an appeal is filed with the Committee, the Participant or Beneficiary shall submit such issues he feels are pertinent and the Committee shall re-examine all facts, make a final determination as to whether the denial of benefits is justified under the circumstances, and advise the Participant or Beneficiary in writing of its decision and the specific reasons on which such decision was based, within sixty (60) days of receipt of such written request, unless special circumstances require a reasonable extension of such 60-day period.

ARTICLE XII

AMENDMENT AND TERMINATION OF THE PLAN

12.01 AMENDMENT OF PLAN

- (a) The Employer shall, by written resolution of the Board, have the right at any time, and from time to time, to amend, in whole or in part, any or all of the provisions of the Plan. However, no such amendment shall authorize or permit any part of the Fund (other than such part as is required to pay taxes and administration expenses) to be used or diverted to purposes other than for the exclusive benefit of the Participants or their Contingent Annuitants, Spouses or Beneficiaries; no such amendment shall cause any reduction in the amount of benefits which at the time of such amendment shall have accrued for the Participants or their Contingent Annuitants, Spouses or Beneficiaries, or cause or permit any portion of the Fund to revert to or become property of the Employer, except as provided in Section 12.02 hereof in the event of the termination of the Plan; and no such amendment which affects the rights, duties or responsibilities of a Trustee may be made without the affected party's written consent. No such amendment shall have retroactive effect except that an amendment adopted during a Plan Year, or within two and one-half (2-1/2) months after the close of the Plan Year, which does not reduce the Accrued Benefit of any Participant may be made effective retroactively, but in no event shall the retroactive date of the effect of such amendment be earlier than the first day of the Plan Year.
- (b) Furthermore, no amendment shall be made to the vesting provisions of Article IX of the Plan which has the effect of reducing the nonforfeitable benefit to which the Participant would have been entitled to in accordance with the provisions of Article IX if he had terminated his employment with the Employer on the date on which such amendment is to be effective, nor shall any amendment affecting the vesting provisions in Article IX of the Plan be made unless any Participant who has completed three (3) Years of Service on the date on which such amendment is to be effective, is allowed to elect to have this nonforfeitable percentage computed under the prior vesting schedule. For Participants who do not have one (1) Hour of Service in any Plan Year beginning after December 31, 1988, the preceding sentence shall be applied by substituting "five (5)" for "three (3)" Years of Service.

The period during which the election may be made shall commence with the date the amendment is adopted or deemed to be made and shall end on the

latest of:

- (i) sixty (60) days after the amendment is adopted;

(ii) sixty (60) days after the amendment becomes effective; or

(iii) sixty (60) days after the Participant is issued written notice of the amendment by the Committee.

(c) Any amendment to the Plan shall become effective upon execution of an appropriate written instrument, undertaken pursuant to authorization by the Board, except that for the purposes of this Section 12.01, should the top heavy provisions of Section 15.01 become operative, the vesting schedule in Section 9.02 shall be deemed to have been amended.

12.02 TERMINATION OF PLAN

(a) The Trust established under Article X hereof, shall be an irrevocable Trust and the Employer expects to continue the Plan indefinitely. However, necessarily, the Employer by action of the Board reserves the right to terminate the Plan at any time: If the Employer terminates the Plan, or it is otherwise terminated, the Trustee shall continue to administer the Fund in accordance with the provisions hereof. Under no conditions, however, will any portion of the Fund at any time revert to or become the property of the Employer except as provided in Subsection (e) of this

Section 12.02. Upon termination or partial termination of the Plan, the rights of each Participant involved in such termination to benefits accrued to the date of such termination or partial termination are nonforfeitable.

(b) However, any termination (other than a partial termination or an involuntary termination pursuant to Section 4042 of ERISA) must satisfy the requirements and follow the procedures outlined herein and in Section 4041 of ERISA for a Standard Termination or a Distress Termination. Upon any termination (full or partial), all amounts shall be allocated in accordance with the provisions hereof and the Accrued Benefit, to the extent funded as of such date, of each affected Participant shall become fully vested and shall not thereafter be subject to forfeiture.

(c) STANDARD TERMINATION PROCEDURE

(i) The Administrator shall first notify all "affected parties" (as defined in Section 4001(a)(21) of ERISA) of the Employer's intention to terminate the Plan and the proposed date of termination. Such termination notice must be provided at least sixty (60) days prior to the proposed termination date. However, in the case of a standard termination, it shall not be necessary to provide such notice to the Pension Benefit Guaranty

Corporation (PBGC). As soon as practicable after the termination notice is given, the Administrator shall provide a follow-up notice to the PBGC setting forth the following:

(A) a certification of an enrolled actuary of the projected amount of the assets of the Plan as of the proposed date of final distribution of assets, the actuarial present value of the "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA) under the Plan as of the proposed termination date, and confirmation that the Plan is projected to be sufficient for such "benefit liabilities" as of the proposed date of final distribution;

(B) a certification by the Administrator that the information provided to the PBGC and upon which the enrolled actuary based his certification is accurate and complete; and

(C) such other information as the PBGC may prescribe by regulation. The certification of the enrolled actuary and of the Administrator shall not be applicable in the case of a plan funded exclusively by individual insurance contracts.

(ii) No later than the date on which the follow-up notice is sent to the PBGC, the Administrator shall provide all Participants and Beneficiaries under the Plan with an explanatory statement specifying each such person's "benefit liabilities", the benefit form on the basis of which such amount is determined, and any additional information used in determining "benefit liabilities" that may be required pursuant to regulations promulgated by the PBGC.

(iii) A standard termination may only take place if at the time the final distribution of assets occurs, the Plan is sufficient to meet all "benefit liabilities" determined as of the termination date.

(d) Upon termination of the Plan, benefits of missing Participants shall be treated in accordance with Section 4050 of ERISA.

12.03 LIMIT FOR 25 HIGHEST PAID EMPLOYEES

(a) In years beginning on or after January 1, 1992 and in the event of Plan termination, the benefit of any Highly Compensated active or former Employee is limited to a benefit that is nondiscriminatory under Section 401(a)(4).

For Plan Years beginning on or after January 1, 1992, benefits distributed to any of the twenty-five (25) most Highly Compensated active and former Highly Compensated Employees are restricted such that the annual payments are no greater than an amount equal to the payment that would be made on behalf of the Employee under a single life annuity that is the Actuarial Equivalent of the sum of the Employee's Accrued Benefit and the Employee's other benefits under the Plan.

The preceding paragraph shall not apply if:

(i) after payment of the benefit to an Employee described in the preceding paragraph, the value of plan assets equals or exceeds one hundred ten percent (110%) of the value of current liabilities, as defined in Code Section 412(1)(7), or

(ii) the value of the benefits for an Employee described above is less than one percent (1%) of the value of current liabilities.

For purposes of this Section, benefit includes loans in excess of the amount set forth in Code Section 72(p)(2)(a), any periodic income, any withdrawal values payable to a living Employee, and any death benefits not provided for by insurance on the Employee's life.

(b) Notwithstanding the otherwise applicable restrictions on distributions of benefits incident to early Plan termination, a Participant's otherwise restricted benefit may be distributed in full upon depositing with an acceptable depository property having a fair market value equal to one hundred twenty-five percent (125%) of the amount which would be repayable had the Plan terminated on the date of the lump sum distribution. If the market value of the property held by the depository falls below one hundred ten percent (110%) of the amount which would be repayable if the Plan were then to terminate, additional property necessary to bring the value of the property held by the depository up to one hundred twenty-five percent (125%) of such amount will be deposited.

ARTICLE XIII

PARTICIPATING COMPANIES

13.01 ADOPTION BY OTHER ENTITIES

Any corporation or other business entity may, by resolution of its own governing body, and with the written approval of the Board, adopt the Plan and thereby become an Employer. Notwithstanding the adoption of the Plan by other entities, the Plan will be administered as a single plan and all Plan assets will be available to pay benefits to all Participants under the Plan.

13.02 ACTUARIAL VALUATION

The Committee shall have the Plan's actuary make an annual actuarial valuation with respect to the Plan to determine the contribution as required in accordance with Article X.

13.03 RIGHT TO WITHDRAW (PLAN SPINOFF)

Each Employer having adopted the Plan shall have the right as of the last day of any month to withdraw from the Plan and/or Trust Agreement by delivering to the Board, the Committee and the Trustee written notification from its own governing body of such action and setting forth the date as of which the withdrawal shall be effective.

ARTICLE XIV

MISCELLANEOUS

14.01 HEADINGS AND SUBHEADINGS

The headings and subheadings in the Plan have been inserted for convenience of reference only and are to be ignored in any construction of the provisions hereof.

14.02 GENDER AND NUMBER

Wherever any words are used herein in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply.

14.03 PARTICIPANTS' RIGHTS: ACQUITTANCE

Neither the establishment of the Plan, nor any modification thereof, nor the creation of the Fund, nor the payment of any benefits, shall be construed as giving to a Participant or other person any legal or equitable right against the Employer, or any officer or Employee thereof, or a Trustee, or the Committee, except as herein provided. Under no circumstances shall the terms of employment of a Participant be modified or in any way affected hereby.

14.04 RECEIPT OR RELEASE

Any payment to a Participant, Contingent Annuitant, Spouse or Beneficiary or to their legal representatives, in accordance with the provisions of the Plan, shall to the extent thereof be in full satisfaction of all claims hereunder against the Trustee, the Committee and the Employer, any of whom may require such Participant, Contingent Annuitant, Spouse, Beneficiary, or legal representative, as a condition precedent to such payment, to execute a receipt and release therefor in such form as shall be determined by a Trustee, the Committee or the Employer as the case may be.

14.05 SPENDTHRIFT CLAUSE

Except insofar as may be contrary to any applicable law, no payment of any benefit under the Plan shall be assignable and no such payment or contribution shall be subject to the claims of any creditor. The preceding sentence shall not apply to the creation, assignment

or recognition of a right to any benefit payable with respect to a Participant, pursuant to a qualified domestic relations order as defined in Section 414(p) of the Code, or any domestic relations order entered before January 1, 1985. In any event, benefits shall be paid from the Plan in accordance with the applicable requirements of such qualified domestic relations order. The Committee shall set forth in writing, reasonable procedures for determining the qualified status of a domestic relations order and for administering distributions under such qualified order.

14.06 PAYMENTS TO LEGALLY INCOMPETENT

If any Participant, Contingent Annuitant, Spouse or Beneficiary is a minor or is, in the judgment of the Committee, otherwise legally incapable of personally receiving and giving a valid receipt for any payment due him under the Plan, the Committee may, unless and until claim shall have been made by a duly appointed guardian or committee of such person, make such payment or any part thereof to such person's Spouse, child, parent, brother or sister or other person deemed by the Committee to have incurred expense for or assumed responsibility for the expenses of such person. Any payment so made shall be a complete discharge of any liability under the Plan for such payment.

14.07 DELEGATION OF AUTHORITY BY THE BOARD

Whenever the Employer, under the terms of the Plan, is permitted or required to do or perform any act or matter or thing, it shall be done and performed by any person thereunto duly authorized by the Board.

14.08 DISTRIBUTION OF BENEFITS UNDER PLAN

No benefits shall be distributed under the Plan except (a) in the event of the retirement of a Participant as provided in Article IV hereof, (b) in the event of death, disability, or other termination of employment of a Participant before retirement for any cause as provided in Article VI and Article IX hereof, or (c) in the event that a court of competent jurisdiction compels payment of benefits from this Plan pursuant to an order which the Committee determines to be a qualified domestic relations order, as described in Code Section 414(p). The Committee shall establish rules to determine whether a court order is a qualified domestic relations order.

14.09 DIVESTMENT OF BENEFITS

No payment of benefits provided under the Plan shall be forfeited, when due, because of any action of a Participant or his Contingent Annuitant, Spouse or Beneficiary, except for the lack of fulfillment of any requirement under any of the terms of the Plan for the

completion of any specified period of Service, Credited Service or the attainment of any specified age, for qualification for such benefits.

14.10 CONSTRUCTION OF PLAN

The Plan shall be governed and construed under the laws of the State of New York to the extent not preempted by ERISA.

14.11 EXECUTION OF PLAN

The Plan may be executed in any number of counterparts, each of which may be deemed the original although the others shall not be produced.

14.12 DEDUCTIBILITY OF CONTRIBUTIONS

Each Employer Contribution is specifically conditioned on the deductibility of the contribution under Code Section 404, and to the extent such contribution, or any part thereof, is disallowed, the contribution, or any part thereof that is disallowed, shall be returned to the Employer within one year after the date of disallowance.

14.13 LOST BENEFICIARY OR PARTICIPANT

If a benefit is forfeited because the Participant, Spouse, Contingent Annuitant or Beneficiary cannot be found, such benefit will be reinstated if a claim is made by the Participant, Spouse, Contingent Annuitant or Beneficiary. In the event that any check or final notice of payment of benefits under the Plan remains outstanding at the expiration of six months from the date of mailing of such check or notice to the last known address of the payee, the Committee shall notify the Trustee to stop payment on all outstanding checks and to suspend the issuance of further checks or notice, if any, to such payee. If, during the three-year period (or such other period as specified in the Trust Agreement) from the date of mailing of the first such check or of notice that a benefit is due under the Plan, the Committee cannot establish contact with the payee by taking such action as it deems appropriate and the payee does not make contact with the Committee, any benefits to which such payee is entitled shall be forfeited. Any benefit so forfeited shall be restored if a claim is made for the unpaid benefit at any subsequent date and the Plan has not been terminated as of such date. Contributions required to be made in accordance with Article X shall reflect such forfeitures and restoration in the same manner as expense gains and losses are reflected in the funding method used by the Plan.

14.14 DUPLICATION OF BENEFITS

- (a) If a Participant is entitled to any retirement income or other benefits attributable to Employer Contributions from any other qualified defined benefit retirement plan or annuity maintained by the Employer, the benefits to which such Participant may be entitled under this Plan shall be reduced by an amount equal to such other retirement income or benefits, to the extent such benefits are attributable to concurrent periods of employment.
- (b) In the determination of any benefit to which a Participant or Beneficiary will be entitled under the Plan, adjustments shall be made to reflect any amounts previously distributed under the Plan and to reflect any amounts required to be paid to the Participant's Spouse or former Spouse under any law or qualified domestic relations order as described in Code Section 414(p).

14.15 MERGER OR CONSOLIDATION

The Plan may be merged or consolidated with, or its assets or liabilities transferred in whole or in part to, another Plan which meets the requirements of Sections 401(a) and 501(a) of the Code only if each Participant would, if either the Plan or the other plan terminated immediately after the merger, consolidation or transfer, then receive a benefit which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer if the Plan then terminated.

14.16 RETURN OF CONTRIBUTIONS AS A RESULT OF MISTAKE OF FACT

Notwithstanding any other provision to the contrary the general prohibition against diversion of plan assets does not preclude the return of contributions made by an Employer to the Plan if the contribution was made by reason of a mistake of fact and the return to the Employer of the amount involved is made within one year of the mistaken payment of the contribution.

14.17 DIRECT ROLLOVER OF ELIGIBLE ROLLOVER DISTRIBUTIONS

- (a) With respect to distributions made on and after January 1, 1993, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution paid, in a direct rollover, directly to an Eligible Retirement Plan specified by the Distributee, subject to the limitations and exceptions granted in proposed and temporary regulations issued under Section 401(a)(31) of the Code and other guidance issued for reliance by the Internal Revenue Service.

The Committee, in establishing administrative procedures and plan distribution rules, shall comply with the provisions of Section 401(a)(31) of the Code and proposed and temporary as well as any future final regulations thereunder, including any guidance issued for reliance by the Internal Revenue Service.

(b) DEFINITIONS.

(i) **ELIGIBLE ROLLOVER DISTRIBUTION:** An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; effective January 1, 1999, any hardship distribution described in Section 401(k)(2)(B)(i)(IV) of the Code and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

(ii) **ELIGIBLE RETIREMENT PLAN:** An Eligible Retirement Plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

(iii) **DISTRIBUTEES:** A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse or former Spouse who is an alternate payee under a qualified domestic relations order as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the Spouse or former Spouse.

(iv) **DIRECT ROLLOVER:** A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

14.18 QUALIFIED DOMESTIC RELATIONS ORDERS

(a) Qualified Domestic Relations Order

(i) A Qualified Domestic Relations Order (hereinafter referred to as "QDRO") is a Domestic Relations Order which creates or recognizes the existence of an Alternate Payee's right to, or assigns to an Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under the Plan, and which the Committee has determined meets the requirements of Paragraphs (ii) and (iii).

(ii) A Domestic Relations Order meets the requirements of a QDRO only if the order clearly specifies

(A) the name and the last known mailing address (if any)

of the Participant and the name and mailing address
of each Alternate Payee covered by the order;

(B) the amount or percentage of the Participant's
benefits to be paid by the Plan to each such
Alternate Payee, or the manner in which such amount
or percentage is to be determined;

(C) the number of payments or period to which such order applies; and

(D) that the order applies to this Plan.

(iii) A Domestic Relations Order meets the requirements of a QDRO only if the order

(A) does not require the Plan to provide any type or form of benefits, or any option, not otherwise provided under the Plan;

(B) does not require the Plan to provide increased benefits (determined on the basis of actuarial value); and

(C) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another Domestic Relations Order previously determined to be a QDRO.

(iv) In the case of any payment before a Participant has separated from service, a QDRO shall not be treated as failing to meet the requirements of Paragraph (iii)(A) above solely because the order requires the payment of benefits to an Alternate Payee

(A) on or after the date on which the Participant attains(or would have attained) the Earliest Retirement Age;

(B) as if the Participant had retired on the date such payment is to begin under such order; and

(C) in any form in which such benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the Alternate Payee and his or her subsequent spouse).

(v) For purposes of Paragraph (iv), Earliest Retirement Age means the earlier of

(A) the date on which the Participant is entitled to a distribution under the Plan; or

(B) the later of (1) the date the Participant attains age 50 or (2) the earliest date on which the Participant could begin receiving benefits under the Plan if such Participant separated from service.

Notwithstanding any provisions of the Plan to the contrary, for purposes of Subparagraph (A) above, a distribution to an Alternate Payee may be made prior to the date on which the Participant is entitled to a distribution under Section 4.03 if requested by the Alternate Payee to the extent such distribution is permitted under the QDRO. Nothing in this provision shall permit the Participant to receive a distribution at a date otherwise not permitted under

Section 4.03 nor shall it permit the Alternate Payee to receive a form of payment not permitted in Section 7.01.

(b) PROCEDURES

Upon receipt of a Domestic Relations Order, the Committee shall take, or cause to be taken, the following actions:

(i) The Committee shall promptly notify the Participant, each Alternate Payee covered by the order and each representative for these parties of the receipt of the Domestic Relations Order. Such notice shall include a copy of the order and these QDRO Procedures for determining whether such order is a QDRO.

(ii) Once a Domestic Relations Order has been received no distributions will be made from the Plan to the Participant upon a subsequent termination until after the payment to the Alternate Payee has been determined, unless the Committee determines the order not to be a QDRO.

(iii) Within a reasonable period after receipt of a Domestic Relations Order, the Committee shall determine whether it is a QDRO and shall notify the parties indicated in Paragraph (i) of such determination. Such notice shall indicate whether the benefits payable to the Alternate Payee in accordance with the QDRO are subject to a previously existing QDRO.

(iv) Pending the Committee's determination of whether a Domestic Relations Order is a QDRO, if payments are due to be paid to the Participant, the Committee shall withhold payment and separately account for the amounts otherwise payable to the Alternate Payee during such period if the order is subsequently determined to be a QDRO (hereinafter referred to as the "segregated amounts"). If, within the 18-month period beginning with the date the first payment would have been required to be made under the Domestic Relations Order, the Committee determines the order to be a QDRO, the Committee shall pay the segregated amounts, including any interest thereon, to the person or persons entitled thereto. If, within such 18-month period, the Committee determines an order is not a QDRO or the Committee fails to reach a decision, the Committee shall pay the segregated amounts to the Participant. If, after the 18-month period, the Committee subsequently determines that the order is a QDRO, the Committee shall pay benefits subsequent to such determination in accordance with the order. If action is taken in accordance with this Subsection (b), the Plan's obligation to the Participant and each Alternate Payee shall be discharged to the extent of any payment made pursuant to the QDRO.

(v) In determining the segregated amounts in accordance with Paragraph (iv), the Participant's vested interest shall be prorated between the Participant and Alternate Payee and the entire amount of any nonvested interest will be credited to the Participant and not taken into consideration in making

such determination. Any future accruals will be credited to the Participant and not the Alternate Payee.

(vi) Upon a determination by the Committee that a Domestic Relations Order is a QDRO, the Committee shall arrange for benefits to be paid to the Alternate Payee in accordance with such order and Sections 4.03 and 7.01 as if the Participant had terminated employment at such time.

(vii) If benefits are not immediately distributable to the Alternate Payee, such amount shall be separately accounted for until such time as the distribution is made.

(viii) The Alternate Payee shall be treated as a Beneficiary for all purposes of the Plan. The foregoing provisions are effective for QDROs entered into on or after January 1, 1985, except that, in the case of a Domestic Relations Order entered into before January 1, 1985, the Committee

(i) may treat such order as a QDRO even though such order fails to meet the requirements of Subsections (a)(ii) and

(iii) above, and (ii) must treat such order as a QDRO if benefits were being paid pursuant to such order on January 1, 1985.

ARTICLE XV

TOP-HEAVY PROVISIONS

15.01 GENERAL PROVISIONS

For any Plan Year for which this Plan is a "top-heavy plan" or a "super top-heavy plan" as defined in Section 15.07 below, and any other provisions of this Plan to the contrary notwithstanding, this Plan shall

be subject to:

- (a) The vesting provisions of Section 15.02,
- (b) The minimum benefit provisions of Section 15.03,
- (c) The limitation on Compensation set by Section 15.04, and
- (d) The limitation on benefits set by Section 15.05.

15.02 MINIMUM VESTING

Each Participant who has completed the number of Years of Service specified in the following table shall have a nonforfeitable right to the percentage of the benefit accrued under this Plan correspondingly

specified in the following table:

Years of Service	Percentage of Nonforfeitable Benefit
-----	-----
2	20
3	40
4	60
5 or more	100

15.03 MINIMUM BENEFITS

Each Participant who is a Non-Key Employee shall be entitled to an Accrued Benefit in the form of an annual benefit, payable as a single life annuity (with no ancillary benefits) beginning at the Participant's Normal Retirement Date, that shall be not less than the applicable percentage (as defined in paragraph (a) below) of the Participant's average annual Compensation for years in the testing period (as defined in paragraph (b) below).

- (a) "Applicable percentage" means the lesser of two percent (2%) multiplied by the number of Plan Years in which the Plan is top-heavy or super top-heavy, or twenty percent (20%).
- (b) "Testing period" means, with respect to a Participant, the period of consecutive Years of Service (not exceeding five (5)) during which the Participant had the greatest aggregate Compensation from the Employer. The testing period shall not include any year not included as a Year of Service in Article III hereof. The testing period shall also not include any Year of Service that ends in a Plan Year beginning before January 1, 1984, or that begins after the close of the last Plan Year in which the Plan was a top-heavy plan.

The minimum benefit under this Section 15.03 shall not take into account any benefits payable under the Social Security Act or any other Federal or state law.

15.04 LIMITS ON COMPENSATION

For any Plan Year in which the Plan is a top-heavy plan or a super top-heavy plan, annual Compensation taken into account under this Article XV shall be Compensation as defined in Article I, without regard to Code Sections 125, 402(a)(8), 402(h)(1)(B) or any Employer contributions under a salary reduction agreement, except those made under Code Section 403(b).

15.05 TRANSITIONAL RULE

- (a) Except as otherwise provided in subsection (b) and (c) of this Section 15.05, if for any Plan Year this Plan is a top-heavy plan, or a super top-heavy plan then the denominator of both the Defined Contribution Fraction and the Defined Benefit Fraction shall be calculated as set forth in Section 5.04 for the limitation year ending in such Plan Year by substituting "1.0" for "1.25" in each place such figure appears. Furthermore, the transitional rule set forth in Section 5.04 shall be applied by substituting "\$41,500" for "\$51,875."
- (b) If, but for this subsection (b), subsection (a) would begin to apply with respect to this Plan because it is determined to be top-heavy or super top-heavy, the application of subsection (a) shall be suspended with respect to any individual for whom there are no Employer contributions, forfeitures or voluntary nondeductible contributions allocated, or accruals for such individual under this Plan.
- (c) For any Plan Year in which this Plan is a top-heavy plan, but not a super top-heavy plan, the provisions of Section 5.04 shall be applied without reference to subsection (a) above and the transitional rule set forth in Section 5.04 shall be

applied without reference to subsection (a) above, provided that the "applicable percentage" in paragraph (a) of Section 15.03 is applied by substituting "three percent (3%)" for "two percent (2%)" and by increasing twenty percent (20%) by one (1) percentage point (up to a maximum of thirty percent (30%)) for each year during which this subsection (c) applies.

15.06 AGGREGATION OF PLANS

- (a) In the event that another defined benefit plan provided by the Employer provides benefits for Participants in this Plan, and that plan is required to be aggregated with this Plan, the minimum benefit required by Section 15.03 shall be provided by this Plan.
- (b) "Aggregation group" means the group of plans, if any, that includes both the group of plans that are required to be aggregated and the group of plans that are permitted to be aggregated.
 - (i) The group of plans that are required to be aggregated (the "Required Aggregation Group") includes each plan of the Employer in which a Key Employee is participating, and each other plan of the Employer which enables a plan in which a Key Employee participates to meet the requirements of either I.R.C. Section 401(a)(4) or Section 410.
 - (ii) The group of plans that are permitted to be aggregated (the "Permissive Aggregation Group") includes any plan that is not part of the required group and that the Committee certifies as constituting a plan within the permissive aggregation group. Such plan may be added to the permissive aggregation group only if, after the addition, the aggregation group as a whole continues to meet the requirements of both Code Sections 401(a)(4) and 410.
- (c) If any Participant is also covered by a defined contribution plan or plans maintained by the Employer, the minimum Accrued Benefit determined in accordance with subsection (a) shall be reduced by the amount of retirement income payable in the form of a life only annuity commencing on the first day of the month coincident with or next following the Participant's Normal Retirement Date which may be provided with the Participant's Account. The amount of retirement income available shall be determined using the actuarial assumptions specified in the Plan for determining the lump sum value of an Accrued Benefit.

(d) For purposes of this Section, only benefits derived from Employer contributions are to be taken into account to determine whether the minimum benefit has been satisfied.

15.07 THE-HEAVY DEFINITIONS

(a) TOP HEAVY PLAN

This Plan shall be a "top-heavy plan" for any Plan Year if, as of the Determination Date, the present value of the cumulative Accrued Benefits including the value of any non-proportionally subsidized benefits (and excluding the value of proportionally subsidized benefits) under the Plan for Participants (including former Participants) who are Key Employees exceeds sixty percent (60%) of the present value of such cumulative Accrued Benefits under the Plan for all Participants; or if this Plan is included in a Required Aggregation Group which for such Plan Year is a top-heavy group. In determining whether this Plan constitutes a top-heavy plan, the Committee shall make the following adjustments in connection therewith:

(i) In determining the present value of the cumulative Accrued Benefit of any Participant, such present value shall include the amount in dollar value of the aggregate distributions made to such Participant under the applicable plan during the five (5) year period ending on the Determination Date. The preceding sentence shall also apply to distributions made on account of death to the extent such benefits do not exceed the present value of Accrued Benefits existing immediately prior to death, as well as distributions under a terminated plan which if it had not been terminated would have been required to be included in an Aggregation Group.

(ii) Further, in making any determination whether the Plan is top-heavy or the Aggregation Group of which it is a part is a top-heavy group, such present value shall not include any unrelated rollover contribution (or similar transfer) which is both initiated by the Participant and made to the Plan after December 31, 1983 from a plan maintained by another Employer.

(iii) Further, in making such determination, in any case where an individual is a Non-Key Employee with respect to an applicable plan but was a Key Employee with respect to such plan for any prior Plan Year, any Accrued Benefit of such Participant shall be altogether disregarded. For this purpose, to the extent that a Key Employee is deemed to be a Key Employee if he or she met the definition of Key Employee within any of

the four (4) preceding Plan Years, this provision shall apply following the end of such period of time.

(iv) Further, in making such determination for Plan Years beginning after December 31, 1984, the present value of the Accrued Benefit or account of any Participant who has not received any Compensation from the Employer during the five (5) year period ending on the Determination Date, shall be disregarded.

(v) For purposes of determining whether the Plan is top heavy, a Participant's Accrued Benefit will be determined under a uniform accrual method which applies in all defined benefit plans of the Employer, or where there is no such method, under the fractional rule.

(b) SUPER TOP-HEAVY PLAN

This Plan shall be a "super top-heavy plan" for any Plan Year if, as of the Determination Date, the Plan would be top-heavy if "ninety percent (90%)" were substituted for "sixty percent (60%)" in the preceding paragraph, or if this Plan is included in a Required Aggregation Group which for such Plan Year would be a Top-heavy Group, if "ninety percent (90%)" were substituted for "sixty percent (60%)" in the paragraph above.

(c) Actuarial Factors For the purpose of determining the present value of Accrued Benefits under this Article XV, the actuarial factors shall be the mortality and interest rates used in the most recent actuarial valuation completed to comply with Section 412 of the Internal Revenue Code of 1986, as amended, within the twelve (12) month period ending on the applicable Determination Date.

(d) "Determination Date" means for any Plan Year the last day of the immediately preceding Plan Year.

(e) "Top-Heavy Group" means the Required Aggregation Group, if as of the applicable Determination Date, the sum of the present value of the cumulative Accrued Benefits for Key Employees under all defined benefit plans included in the Required Aggregation Group plus the aggregate of the accounts of Key Employees under all defined contribution plans included in the Required Aggregation Group exceeds sixty percent (60%) of the sum of the present value of the cumulative Accrued Benefits for all Participants under all such defined benefit plans plus the aggregate accounts for all Participants under all such defined contribution plans.

15.08 EXCLUDED PARTICIPANTS

The provisions of this Article do not apply with respect to any Participant included in a unit of Participants covered by a collective bargaining agreement unless the application of this Article has been agreed upon with the collective bargaining agent.

**FIRST AMENDMENT TO THE
WATTS INDUSTRIES, INC.
PENSION PLAN**

WHEREAS, Watts Industries, Inc. (the "Sponsoring Employer") established the Watts Industries, Inc. Pension Plan (the "Plan") effective January 1, 1985 for the benefit of Eligible Employees; and

WHEREAS the Plan was most recently amended and restated effective January 1, 1997, and

WHEREAS the Sponsoring Employer desires to amend the Plan to comply with the Economic Growth and Tax Relief Reconciliation Act of 2001 ("EGTRRA") and other recent legislative and regulatory changes;

NOW THEREFORE, in consideration of the foregoing, the Plan is hereby amended as set forth herein effective January 1, 2002 unless specifically stated otherwise. This amendment is intended to be a "good faith EGTRRA amendment" within the meaning of Notice 2001-57 and is to be construed in accordance with EGTRRA and the guidance thereunder.

29. Section 1.02 is hereby amended by the addition of the following at the end thereof:

"(g) Notwithstanding any other Plan provision to the contrary, with respect to lump sum distributions made on or after January 1, 2003, Actuarial Equivalence shall be determined based on the mortality table specified in Section 417(e)(3) of the Code and an interest rate equal to the rate defined in Section 417(e)(3)(A)(ii)(II) of the Code for the November immediately preceding the Plan Year of distribution."

30. Section 1.09 is hereby amended effective January 1, 1998 by the addition of the following at the end thereof:

"For purposes of this definition of Compensation, contributions pursuant to a cafeteria plan established under Section 125 of the Code shall include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as a contribution under Section 125 of the Code only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan."

31. Section 1.09 is hereby further amended by the addition of the following at the end thereof:

"Notwithstanding any provision of the Plan the contrary, in no event shall a Participant's Compensation taken into account under the Plan for any Plan Year beginning on or after

January 1, 2002 exceed the applicable limit specified in Code Section 401(a)(17)(A) for any Plan Year. This dollar limit on Compensation shall be adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment shall apply only to Compensation taken into account for Plan Years beginning with the Plan Year in which such increase is effective.

For purposes of determining benefit accruals in Plan Years beginning after December 31, 2001 for Participants who earn an Hour of Service after December 31, 2001, Compensation for any prior Plan Year shall be limited to \$200,000."

32. Article 5 is hereby amended effective as of January 1, 2003 by the addition of the following new Section 5.11:

"5.11 MINIMUM DISTRIBUTION REQUIREMENTS

(a) GENERAL RULES

- (i) EFFECTIVE DATE. The provisions of this Section 5.11 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.
- (ii) PRECEDENCE. The requirements of this article will take precedence over any inconsistent provisions of the Plan.
- (iii) REQUIREMENTS OF TREASURY REGULATIONS INCORPORATED. All distributions required under this Section 5.11 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code.
- (iv) TEFRA SECTION 242(b)(2) ELECTIONS. Notwithstanding the other provisions of this Section 5.11, other than paragraph (a)(iii) above, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act ("TEFRA") and the provisions of the Plan that relate to Section 242(b)(2) of TEFRA.

(b) TIME AND MANNER OF DISTRIBUTION

- (i) REQUIRED BEGINNING DATE. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.
- (ii) DEATH OF PARTICIPANT BEFORE DISTRIBUTIONS BEGIN. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

- (A) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.
- (B) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.
- (C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
- (D) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse begin, this Subsection 5.11(b)(ii), other than Subsection 5.11(b)(ii)(A), will apply as if the surviving Spouse were the Participant.

For purposes of this Subsection 5.11(b)(ii) and Subsection 5.11(e), distributions are considered to begin on the Participant's Required Beginning Date (or, if Subsection 5.11(b)(ii)(D) applies, the date distributions are required to begin to the surviving Spouse under Subsection 5.11(b)(ii)(A). If annuity payments irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Subsection 5.11(b)(ii)(A), the date distributions are considered to begin is the date distributions actually commence.

(iii) FORM OF DISTRIBUTION. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections (c), (d) and (e) of this Section 5.10. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations. Any part of the Participant's interest which is in the form of an individual account described in Section 414(k) of the Code will be distributed in a manner satisfying the requirements of section 401(a)(9) of the Code and the Treasury regulations that apply to individual accounts.

(c) DETERMINATION OF AMOUNT TO BE DISTRIBUTED EACH YEAR

- (i) GENERAL ANNUITY REQUIREMENTS. If the Participant's interest is paid in the form of annuity distributions under the plan, payments under the annuity will satisfy the following requirements:
- (A) the annuity distributions will be paid in periodic payments made at intervals not longer than one year;
 - (B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Subsection (d) or (e);
 - (C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted;
 - (D) payments will either be nonincreasing or increase only as follows:
 - (1) by an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics;

- (2) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit upon death, but only if the Beneficiary whose life was being used to determine the distribution period described in Subsection (d) dies or is no longer the Participant's Beneficiary pursuant to a Qualified Domestic Relations Order within the meaning of section 414(p);
 - (3) to provide cash refunds of employee contributions upon the Participant's death; or
 - (4) to pay increased benefits that result from a Plan amendment.
 - (ii) AMOUNT REQUIRED TO BE DISTRIBUTED BY REQUIRED BEGINNING DATE. The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Subsection 5.11(b)(ii)(A) or (B) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, e.g., bi-monthly, monthly, semi-annually, or annually. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.
 - (iii) ADDITIONAL ACCRUALS AFTER FIRST DISTRIBUTION CALENDAR YEAR. Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues.
- (d) REQUIREMENTS FOR ANNUITY DISTRIBUTIONS THAT COMMENCE DURING PARTICIPANT'S LIFETIME
- (i) JOINT LIFE ANNUITIES WHERE THE BENEFICIARY IS NOT THE PARTICIPANT'S SPOUSE. If the Participant's interest is being distributed in the form of a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have

been payable to the Participant using the table set forth in Q&A-2 of Section 1.401(a)(9)-6T of the Treasury regulations. If the form of distribution combines a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary and a period certain annuity, the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.

- (ii) PERIOD CERTAIN ANNUITIES. Unless the Participant's Spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the Benefit Commencement Date. If the Benefit Commencement Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Benefit Commencement Date. If the Participant's Spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Subsection (d)(ii), or the joint life and last survivor expectancy of the Participant and the Participant's Spouse as determined under the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the calendar year that contains the Benefit Commencement Date.
- (e) REQUIREMENTS FOR MINIMUM DISTRIBUTIONS WHERE PARTICIPANT DIES BEFORE DATE DISTRIBUTIONS BEGIN
 - (i) PARTICIPANT SURVIVED BY DESIGNATED BENEFICIARY. If the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Subsection (b)(ii)(A) or (B), over the life of the Designated Beneficiary or over a period certain not exceeding:

- (A) unless the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death; or
 - (B) if the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year that contains the Benefit Commencement Date.
 - (ii) NO DESIGNATED BENEFICIARY. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death
 - (iii) DEATH OF SURVIVING SPOUSE BEFORE DISTRIBUTIONS TO SURVIVING SPOUSE BEGIN. If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Subsection (e) will apply as if the surviving Spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Subsection (b)(ii)(A).
- (f) DEFINITIONS
- (i) DESIGNATED BENEFICIARY. The individual who is designated as the Beneficiary under Section 8.07 of the Plan and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.
 - (ii) DISTRIBUTION CALENDAR YEAR. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Subsection (b)(ii).

- (iii) LIFE EXPECTANCY. Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.
- (iv) REQUIRED BEGINNING DATE. The date described in Section 5.06(b) of the Plan."

5. Subsection 12.09(b) is hereby amended by the addition of the following at the end thereof:

"Effective for distributions after December 31, 2001,

(1) an Eligible Rollover Distribution does not include any hardship distribution, and

(2) a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible."

6. Subsection 12.09(c) is hereby amended by the addition of the following at the end thereof:

"Effective for distributions after December 31, 2001, an Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by an eligible employer described in Section 457(e)(1)(A) of the Code.

The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p)."

7. Article 10 is hereby amended effective for claims filed on or after January 1, 2003 by the deletion of Section 10.10 and the substitution in lieu thereof of the following:

"10.10 PROCEDURE FOR CLAIMING BENEFITS UNDER THE PLAN

- (a) Claims for benefits under the Plan made by a Participant or Beneficiary covered by the Plan must be submitted in writing to the Committee. Approved claims will be processed and instructions issued to the Trustee authorizing payments as claimed.

If a claim is denied in whole or in part, the Committee shall notify the claimant of its decision by written notice, in a manner calculated to be understood by the claimant. The

Committee shall set forth in the notice:

(i) the specific reason or reasons for the denial of the claim;

(ii) the specific references to the pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary;

(iv) an explanation of the Plan's claim review procedure; and

(v) a statement of the claimant's right to bring a civil action in accordance with section 502(a) of ERISA if the claimant's claim is denied upon review.

Such notification shall be given within 90 days after the claim is received by the Committee. This period may be extended for another 90 days if the claimant is notified that the extension is necessary due to matters beyond the control of the Plan, before the end of the original 90-day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

(b) Upon denial of a claim in whole or in part, a claimant or his duly authorized representative shall have the right to submit a written request to the Committee for a full and fair review of the denied claim, to submit written comments, documents, records, and other information relating to the claim, and to be provided, upon request and free of charge, access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits. A request for review of a claim must be submitted within 60 days of receipt by the claimant of written notice of the denial of the claim.

The Committee shall advise the claimant of the results of the review within 60 days after receipt of the written request for review. This period may be extended for another 60 days if the Committee determines that special circumstances require an extension of time for processing the request and if written notice of such extension and circumstances is given to such claimant within the initial 60 day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

In the event an appeal is denied, the claimant will be notified in writing. The Committee shall set forth in the notice:

(i) the specific reason or reasons for the denial of the claim;

(ii) the specific references to the pertinent Plan provisions on which the denial is based;

(iii) a statement of the claimant's right to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and

(iv) a statement of the claimant's right to bring a civil action in accordance with Section 502(a) of ERISA.

The decision of the Committee by majority vote shall be final and binding upon any and all claimants, including but not limited to Participants and their Beneficiaries, and any other individuals making a claim through or under them."

8. Subsection 5.04(a)(i) is hereby amended by the deletion of the phrase "\$90,000" and the substitution in lieu thereof of the following:

"the dollar limitation specified in Code Section 415(b)(1)(A), (The new limit specified in Section 415(b)(1)(A) of the Code shall apply only to Participants who are credited with at least one Hour of Service on or after the first day of the first Limitation Year beginning after December 31, 2001.)"

9. Subsection 5.04(c) is hereby amended effective January 1, 1998 by the addition of the following:

"For Limitation Years beginning on or after January 1, 1998, for purposes of determining Section 415 Compensation, amounts included pursuant to

Section 125 of the Code shall include amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan."

10. Subsection 5.04(e) is hereby amended by the addition of the following at the end thereof:

"Notwithstanding the foregoing, for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences prior to age 62, the maximum dollar limitation defined in paragraph (a)(i), adjusted by paragraph (d), shall be the actuarial equivalent of such amount payable at age 62. For purposes of this paragraph, actuarial equivalent shall be based on the plan's early retirement reductions or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller amount."

11. Subsection 5.04(f) is hereby amended by the addition of the following at the end thereof:

"Notwithstanding the foregoing, effective for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences after his or her attainment of age 65, the dollar limitation defined in paragraph (a)(i) above, adjusted by paragraph (d), shall be increased so it is the actuarial equivalent of such amount payable commencing at age 65. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02, or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller increase."

12. Section 5.04 is hereby amended by the addition by the addition of the following subsection (m) at the end thereof:

"(m) Notwithstanding any other Plan provision to the contrary, with respect to distributions with benefit commencement dates occurring on or after January 1, 2003 the mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C) or (D) of the Code as set forth in Subsections (e), (f), or (g) of this Section 5.04 shall be the mortality table specified in Section 417(e)(3) of the Code."

13. Article XV is hereby replaced in its entirety by the following effective January 1, 2002:

"15.01 TOP HEAVY PROVISIONS

(a) For purposes of this Section, the following terms shall have the meanings indicated below:

(i) "AGGREGATION GROUP" means either:

(A) A "PERMISSIVE AGGREGATION GROUP". The Committee may also include any other qualified plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Sections 401(a)(4) and 410 of the Code. Such group shall be known as a Permissive Aggregation Group.

(B) A "REQUIRED AGGREGATION GROUP". In determining a Required Aggregation Group hereunder, each qualified plan of the Employer or an Affiliated Employer in which a Key Employee participates and each other plan of the Employer or an Affiliated Employer, including terminated plans maintained within the one-year period ending on the Determination Date, which enables any plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) or 410 of the Code will be required to be aggregated. Such group shall be known as a Required Aggregation Group. Notwithstanding the foregoing,

the Required Aggregation Group will not include "safe harbor" plans described in Section 401(k)(12) and 401(m)(11) of the Code.

Solely for purposes of determining if the Plan or any other qualified plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits of Non-Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or Affiliated Employers or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

In no event shall this Plan be considered a top heavy plan if it is part of a Required Aggregation Group or a Permissive Aggregation Group that is not a top heavy group.

Only those plans of the Employer or Affiliated Employers in which the determination dates fall within the same calendar year shall be aggregated in order to determine whether such plans are top heavy plans.

- (ii) "DETERMINATION DATE" means the last day of the preceding Plan Year, except that for the first Plan Year the Determination Date is the last day of that Plan Year.
- (iii) "EMPLOYEE", "FORMER EMPLOYEE", "KEY EMPLOYEE" and "NON-KEY EMPLOYEE" shall also include Beneficiaries of such an employee.
- (iv) "KEY EMPLOYEE" means any employee or former employee (including any deceased employee) of the Employer or an Affiliated Employer who at any time during the Plan Year containing the Determination Date for the Plan Year in question is:
 - (A) An officer of the Employer or Affiliated Employer, if such individual received Section 415 Compensation of more than \$130,000 as adjusted. No more than 50 employees (or, if lesser, the greater of 3 employees or 10% of the employees) shall be treated as officers (exclusive of employees described in Section 414(q)(8) of the Code).
 - (B) A 5% owner of the Employer or an Affiliated Employer. A "5% owner" means a person owning (or considered as owning, within

the meaning of Section 318 of the Code) more than 5% of the outstanding stock of the Employer or an Affiliated Employer, or stock possessing more than 5% of the total combined voting power of all stock of the Employer or an Affiliated Employer (or having more than 5% of the capital or profits interest in any Employer or Affiliated Employer that is not a corporation determined under similar principles).

- (C) A 1% owner of the Employer or an Affiliated Employer having Section 415 Compensation of more than \$150,000. A "1% owner" means any person who would be described in paragraph (a)(iv)(B) above if "1%" were substituted for "5%" in each place where it appears in paragraph (a)(iv)(B).

A Key Employee shall be determined in accordance with the provisions of Section 416(i) of the Code.

- (v) "NON-KEY EMPLOYEE" means an employee who is not a Key Employee, including any employee who is a former Key Employee.
- (vi) "VALUATION DATE" means the date used to calculate the value of accrued benefits or account balances for purposes of determining the top heavy ratio specified in paragraph (b) below.

For purposes of this Plan, the Valuation Date shall be the valuation date used for computing the Plan's minimum funding requirements under Section 412 of the Code. For each other plan, the Valuation Date shall be, subject to Section 416 of the Code, the most recent Valuation Date which falls within or ends within the twelve consecutive months ending on the applicable determination date for such plan.

(b) TOP HEAVY PLAN

The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

(i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the one-year period ending on the Determination Date (in the case of any distribution made for a reason other than separation from service, death or disability, the five-year period ending on the Determination Date) shall be taken into consideration.

(ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the one-year period ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such one-year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall have credited to his defined contribution plan account a minimum Employer contribution equal to the minimum contribution provided by such defined contribution plan; however, in no event shall the minimum Employer contribution be less than 5% of such Participant's Section 415 Compensation. No Minimum Benefit shall accrue under this Plan.

(iii) If an Employee is a Non-Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.

(iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Non-Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

- (v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.
- (vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.02(a).
- (vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.
- (viii) "Deductible employee contributions" (within the meaning of Section 501(c)(18)(D) of the Code) contributed to any plan in the Aggregation Group shall not be taken into consideration.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

(c) Notwithstanding any other provision of the Plan to the contrary, for any Plan Year in which the Plan is deemed to be a top heavy plan, the following provisions shall apply:

(i) MINIMUM VESTING

Any Participant who completes an Hour of Service in a Plan Year in which the Plan is deemed to be a top heavy plan shall have a nonforfeitable interest in a percentage of his or her Accrued Benefit determined by multiplying the Accrued Benefit by the applicable percentage from the following schedule:

YEARS OF VESTING SERVICE	VESTED PERCENTAGE
Less than 3 years	0 %
3 or more years	100 %

Furthermore, if the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule.

The provisions of this paragraph (c)(i) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of the Plan.

(ii) MINIMUM BENEFIT

Each Participant who is a Non-Key Employee shall have an Accrued Benefit calculated as of the last day of the top heavy Plan Year or, if earlier, as of his or her termination of employment date occurring during such Plan Year, at least equal to the product of (A) 2% of his or her Section 415 Compensation (as defined in Section 415(c) of the Code) from an Employer or Affiliated Employer during the five consecutive years for which the Participant had the highest Compensation, and (B) his or her years of Benefit Service up to a maximum of ten years. For purposes of this paragraph (ii), years of Benefit Service shall not include Plan Years during which the Plan is not a top heavy plan nor a Plan Year in which no Key or former Key Employee benefits under the Plan.

For purposes of this Plan, the minimum annual retirement benefit means a benefit payable annually in the form of a single life annuity (with no ancillary benefits) beginning at a Participant's Normal Retirement Date.

If a Non-Key Employee participates in a defined contribution plan included in the Aggregation Group, the minimum benefit shall be provided under this Subsection.

(iii) In any Plan Year that the Plan ceases to be top heavy, the above provisions shall no longer apply, except that the portion of a Participant's Accrued Benefit which was vested pursuant to paragraph (i) above shall remain vested."

14. Section 1.01 of Part A is hereby amended by the addition of the following at the end thereof:

(f) "Notwithstanding any other Plan provision to the contrary, with respect to lump sum distributions made on or after January 1, 2003, Actuarial Equivalence shall be determined based on the mortality table specified in Section 417(e)(3) of the Code and an interest rate equal to the rate defined in Section 417(e)(3)(A)(ii)(II) of the Code for the November immediately preceding the Plan Year of distribution."

15. Article 5 of Part A is hereby amended effective as of January 1, 2003 by the addition of the following new Section 5.12:

"5.12 MINIMUM DISTRIBUTION REQUIREMENTS

(d) GENERAL RULES

- (j) EFFECTIVE DATE. The provisions of this Section 5.12 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

(v) PRECEDENCE. The requirements of this article will take precedence over any inconsistent provisions of the Plan.

(vi) REQUIREMENTS OF TREASURY REGULATIONS INCORPORATED. All distributions required under this Section 5.12 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code.

(vii) TEFRA SECTION 242(b)(2) ELECTIONS. Notwithstanding the other provisions of this Section 5.12, other than paragraph (a)(iii) above, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act ("TEFRA") and the provisions of the Plan that relate to Section 242(b)(2) of TEFRA.

(e) TIME AND MANNER OF DISTRIBUTION

(j) REQUIRED BEGINNING DATE. The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.

(ii) DEATH OF PARTICIPANT BEFORE DISTRIBUTIONS BEGIN. If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(A) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.

(B) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(D) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse begin, this Subsection 5.12(b)(ii), other than Subsection 5.12(b)(ii)(A), will apply as if the surviving Spouse were the Participant.

For purposes of this Subsection 5.12(b)(ii) and Subsection 5.12(e), distributions are considered to begin on the Participant's Required Beginning Date (or, if Subsection 5.12(b)(ii)(D) applies, the date distributions are required to begin to the surviving Spouse under Subsection 5.12(b)(ii)(A). If annuity payments irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Subsection 5.12(b)(ii)(A), the date distributions are considered to begin is the date distributions actually commence.

(iii) FORM OF DISTRIBUTION. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections (c), (d) and (e) of this Section 5.12. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations. Any part of the Participant's interest which is in the form of an individual account described in Section 414(k) of the Code will be distributed in a manner satisfying the requirements of section 401(a)(9) of the Code and the Treasury regulations that apply to individual accounts.

(f) DETERMINATION OF AMOUNT TO BE DISTRIBUTED EACH YEAR

(i) GENERAL ANNUITY REQUIREMENTS. If the Participant's interest is paid in the form of annuity distributions under the plan, payments under the annuity will satisfy the following requirements:

(A) the annuity distributions will be paid in periodic payments made at intervals not longer than one year;

(B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Subsection (d) or (e);

(C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted;

(D) payments will either be nonincreasing or increase only as follows:

(1) by an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics;

(2) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit upon death, but only if the Beneficiary whose life was being used to determine the distribution period described in Subsection (d) dies or is no longer the Participant's Beneficiary pursuant to a Qualified Domestic Relations Order within the meaning of section 414(p);

(3) to provide cash refunds of employee contributions upon the Participant's death; or

(4) to pay increased benefits that result from a Plan amendment.

(ii) **AMOUNT REQUIRED TO BE DISTRIBUTED BY REQUIRED BEGINNING DATE.** The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Subsection 5.12(b)(ii)(A) or (B) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, e.g., bi-monthly, monthly, semi-annually, or annually. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.

(iii) **ADDITIONAL ACCRUALS AFTER FIRST DISTRIBUTION CALENDAR YEAR.** Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with

the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues.

(d) REQUIREMENTS FOR ANNUITY DISTRIBUTIONS THAT COMMENCE DURING PARTICIPANT'S LIFETIME

(i) JOINT LIFE ANNUITIES WHERE THE BENEFICIARY IS NOT THE PARTICIPANT'S SPOUSE. If the Participant's interest is being distributed in the form of a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the Participant using the table set forth in Q&A-2 of Section 1.401(a)(9)-6T of the Treasury regulations. If the form of distribution combines a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary and a period certain annuity, the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.

(ii) PERIOD CERTAIN ANNUITIES. Unless the Participant's Spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the Benefit Commencement Date. If the Benefit Commencement Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Benefit Commencement Date. If the Participant's Spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Subsection (d)(ii), or the joint life and last survivor expectancy of the Participant and the Participant's Spouse as determined under the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the calendar year that contains the Benefit Commencement Date.

(e) REQUIREMENTS FOR MINIMUM DISTRIBUTIONS WHERE PARTICIPANT DIES BEFORE DATE DISTRIBUTIONS BEGIN

(i) PARTICIPANT SURVIVED BY DESIGNATED BENEFICIARY. If the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Subsection (b)(ii)(A) or (B), over the life of the Designated Beneficiary or over a period certain not exceeding:

(A) unless the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death; or

(B) if the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year that contains the Benefit Commencement Date.

(ii) NO DESIGNATED BENEFICIARY. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death

(iii) DEATH OF SURVIVING SPOUSE BEFORE DISTRIBUTIONS TO SURVIVING SPOUSE BEGIN. If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Subsection (e) will apply as if the surviving Spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Subsection (b)(ii)(A).

(f) DEFINITIONS

(i) DESIGNATED BENEFICIARY. The individual who is designated as the Beneficiary under Section 8.05 of Part A of the Plan and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.

(ii) **DISTRIBUTION CALENDAR YEAR.** A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Subsection (b)(ii).

(iii) **LIFE EXPECTANCY.** Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.

(iv) **REQUIRED BEGINNING DATE.** The date described in Section 5.06(b) of the Plan."

16. Subsection 12.10(b) of Part A is hereby amended by the addition of the following at the end thereof:

"Effective for distributions after December 31, 2001,

(1) an Eligible Rollover Distribution does not include any hardship distribution, and

(2) a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible."

17. Subsection 12.10(c) of Part A is hereby amended by the addition of the following at the end thereof:

"Effective for distributions after December 31, 2001, an Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by an eligible employer described in Section 457(e)(1)(A) of the Code.

The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p)."

18. Section 10 of Part A is hereby amended effective for claims filed on or after January 1, 2003 by the deletion of Section 10.10 and the substitution in lieu thereof of the following:

"10.10 PROCEDURE FOR CLAIMING BENEFITS UNDER THE PLAN

- (a) Claims for benefits under the Plan made by a Participant or Beneficiary covered by the Plan must be submitted in writing to the Committee. Approved claims will be processed and instructions issued to the Trustee authorizing payments as claimed.

If a claim is denied in whole or in part, the Committee shall notify the claimant of its decision by written notice, in a manner calculated to be understood by the claimant. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary;

(v) an explanation of the Plan's claim review procedure; and

(v) a statement of the claimant's right to bring a civil action in accordance with section 502(a) of ERISA if the claimant's claim is denied upon review.

Such notification shall be given within 90 days after the claim is received by the Committee. This period may be extended for another 90 days if the claimant is notified that the extension is necessary due to matters beyond the control of the Plan, before the end of the original 90-day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

(b) Upon denial of a claim in whole or in part, a claimant or his duly authorized representative shall have the right to submit a written request to the Committee for a full and fair review of the denied claim, to submit written comments, documents, records, and other information relating to the claim, and to be provided, upon request and free of charge, access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits. A request for review of a claim must be submitted within 60 days of receipt by the claimant of written notice of the denial of the claim.

The Committee shall advise the claimant of the results of the review within 60 days after receipt of the written request for review. This period may be extended for another 60 days if the Committee determines that special circumstances require an extension of time for processing the request and if written notice of such extension and circumstances is given to such claimant within the initial 60 day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

In the event an appeal is denied, the claimant will be notified in writing. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a statement of the claimant's right to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (iv) a statement of the claimant's right to bring a civil action in accordance with Section 502(a) of ERISA.

The decision of the Committee by majority vote shall be final and binding upon any and all claimants, including but not limited to Participants and their Beneficiaries, and any other individuals making a claim through or under them."

19. Subsection 5.04(a)(i) of Part A is hereby amended by the deletion of the phrase "\$90,000" and the substitution in lieu thereof of the following:

"the dollar limitation specified in Code Section 415(b)(1)(A)(The new limit specified in Section 415(b)(1)(A) of the Code shall apply only to Participants who are credited with at least one Hour of Service on or after the first day of the first Limitation Year beginning after December 31, 2001.)"

20. Subsection 5.04(c) of Part A is hereby amended effective January 1, 1998 by the addition of the following:

"For Limitation Years beginning on or after January 1, 1998, for purposes of determining Section 415 Compensation, amounts included pursuant to Section 125 of the Code shall include amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan."

21. Subsection 5.04(e) of Part A is hereby amended by the addition of the following at the end thereof:

"Notwithstanding the foregoing, for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences prior to age 62, the maximum dollar limitation defined in paragraph (a)(i), adjusted by paragraph (d), shall be the actuarial equivalent of such amount payable at age 62. For purposes of this paragraph, actuarial equivalent shall be based on the plan's early retirement reductions or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller amount."

22. Subsection 5.04(f) of Part A is hereby amended by the addition of the following at the end thereof:

"Notwithstanding the foregoing, effective for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences after his or her attainment of age 65, the dollar limitation defined in paragraph (a)(i) above, adjusted by paragraph (d), shall be increased so it is the actuarial equivalent of such amount payable commencing at age 65. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.01(b) of Part A, or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller increase."

23. Section 5.04 of Part A is hereby amended by the addition by the addition of the following subsection (l) at the end thereof:

"(l) Notwithstanding any other Plan provision to the contrary, with respect to distributions with Benefit Commencement Dates occurring on or after January 1, 2003, the mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C) or (D) of the Code as set forth in Subsections (e), (f), or (g) of this Section 5.04 of Part A shall be the mortality table specified in Section 417(e)(3) of the Code."

24. Article 14 of Part A is hereby replaced in its entirety by the following effective January 1, 2002:

"14.01 TOP HEAVY PROVISIONS

(a) For purposes of this Section, the following terms shall have the meanings indicated below:

(i) "AGGREGATION GROUP" means either:

(A) A "PERMISSIVE AGGREGATION GROUP". The Committee may also include any other qualified plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Sections 401(a)(4) and 410 of the Code. Such group shall be known as a Permissive Aggregation Group.

(B) A "REQUIRED AGGREGATION GROUP". In determining a Required Aggregation Group hereunder, each qualified plan of the Employer or an Affiliated Employer in which a Key Employee participates and each other plan of the Employer or an Affiliated Employer, including terminated plans maintained within the one-year period ending on the Determination Date, which enables any plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) or 410 of the Code will be required to be aggregated. Such group shall be known as a Required Aggregation Group. Notwithstanding the foregoing, the Required Aggregation Group will not include "safe harbor" plans described in Section 401(k)(12) and 401(m)(11) of the Code.

Solely for purposes of determining if the Plan or any other qualified plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits of Non-Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or Affiliated Employers or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

In no event shall this Plan be considered a top heavy plan if it is part of a Required Aggregation Group or a Permissive Aggregation Group that is not a top heavy group.

Only those plans of the Employer or Affiliated Employers in which the determination dates fall within the same calendar year shall be aggregated in order to determine whether such plans are top heavy plans.

(ii) "DETERMINATION DATE" means the last day of the preceding Plan Year, except that for the first Plan Year the Determination Date is the last day of that Plan Year.

(iii) "EMPLOYEE", "FORMER EMPLOYEE", "KEY EMPLOYEE" and "NON-KEY EMPLOYEE" shall also include Beneficiaries of such an employee.

(iv) "KEY EMPLOYEE" means any employee or former employee (including any deceased employee) of the Employer or an Affiliated Employer who at any time during the Plan Year containing the Determination Date for the Plan Year in question is:

(A) An officer of the Employer or Affiliated Employer, if such individual received Section 415 Compensation of more than \$130,000 as adjusted. No more than 50 employees (or, if lesser, the greater of 3 employees or 10% of the employees) shall be treated as officers (exclusive of employees described in Section 414(q)(8) of the Code).

(B) A 5% owner of the Employer or an Affiliated Employer. A "5% owner" means a person owning (or considered as owning, within the meaning of Section 318 of the Code) more than 5% of the outstanding stock of the Employer or an Affiliated Employer, or stock possessing more than 5% of the total combined voting power of all stock of the Employer or an Affiliated Employer (or having more than 5% of the capital or profits interest in any Employer or Affiliated Employer that is not a corporation determined under similar principles).

(C) A 1% owner of the Employer or an Affiliated Employer having Section 415 Compensation of more than \$150,000. A "1% owner" means any person who would be described in paragraph (a)(iv)(B) above if "1%" were substituted for "5%" in each place where it appears in paragraph (a)(iv)(B).

A Key Employee shall be determined in accordance with the provisions of Section 416(i) of the Code.

(v) "NON-KEY EMPLOYEE" means an employee who is not a Key Employee, including any employee who is a former Key Employee.

(vi) "VALUATION DATE" means the date used to calculate the value of accrued benefits or account balances for purposes of determining the top heavy ratio specified in paragraph (b) below.

For purposes of this Plan, the Valuation Date shall be the valuation date used for computing the Plan's minimum funding requirements under Section 412 of the Code. For each other plan, the Valuation Date shall be, subject to Section 416 of the Code, the most recent Valuation Date which falls within or ends within the twelve consecutive months ending on the applicable determination date for such plan.

(b) TOP HEAVY PLAN

The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

(i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the one-year period ending on the Determination Date (in the case of any distribution made for a reason other than separation from service, death or disability, the five-year period ending on the Determination Date) shall be taken into consideration.

(ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the one-year period ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such one-year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the

Employer, shall have credited to his defined contribution plan account a minimum Employer contribution equal to the minimum contribution provided by such defined contribution plan; however, in no event shall the minimum Employer contribution be less than 5% of such Participant's Section 415 Compensation. No Minimum Benefit shall accrue under this Plan.

(iii) If an Employee is a Non-Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.

(iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Non-Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

(v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.

(vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.01(a) of part A.

(vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.

(viii) "Deductible employee contributions" (within the meaning of Section 501(c)(18)(D) of the Code) contributed to any plan in the Aggregation Group shall not be taken into consideration.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

(c) Notwithstanding any other provision of the Plan to the contrary, for any Plan Year in which the Plan is deemed to be a top heavy plan, the following provisions shall apply:

(i) MINIMUM VESTING

Any Participant who completes an Hour of Service in a Plan Year in which the Plan is deemed to be a top heavy plan shall have a nonforfeitable interest in a percentage of his or her Accrued Benefit determined by multiplying the Accrued Benefit by the applicable percentage from the following schedule:

YEARS OF VESTING SERVICE	VESTED PERCENTAGE
Less than 3 years	0 %
3 or more years	100 %

Furthermore, if the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule.

The provisions of this paragraph (c)(i) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of the Plan.

(ii) MINIMUM BENEFIT

Each Participant who is a Non-Key Employee shall have an Accrued Benefit calculated as of the last day of the top heavy Plan Year or, if earlier, as of his or her Severance from Service Date occurring during such Plan Year, at least equal to the product of (A) 2% of his or her Section 415 Compensation (as defined in Section 415(c) of the Code) from an Employer or Affiliated Employer during the five consecutive years for which the Participant had the highest Compensation, and (B) his or her years of Benefit Service up to a maximum of ten years. For purposes of this paragraph (ii), years of Benefit Service shall not include Plan Years during which the Plan is not a top heavy plan nor a Plan Year in which no Key or former Key Employee benefits under the Plan.

For purposes of this Plan, the minimum annual retirement benefit means a benefit payable annually in the form of a single life annuity (with no ancillary benefits) beginning at a Participant's Normal Retirement Date.

If a Non-Key Employee participates in a defined contribution plan included in the Aggregation Group, the minimum benefit shall be provided under this Subsection (ii).

(iii) In any Plan Year that the Plan ceases to be top heavy, the above provisions shall no longer apply, except that the portion of a Participant's

Accrued Benefit which was vested pursuant to paragraph (i) above shall remain vested."

25. Section 1.02 of Part B is hereby amended by the addition of the following at the end thereof:

"Notwithstanding any other Plan provision to the contrary, with respect to lump sum distributions made on or after January 1, 2003, Actuarial Equivalence shall be determined based on the mortality table specified in Section 417(e)(3) of the Code and an interest rate equal to the rate defined in Section 417(e)(3)(A)(ii)(II) of the Code for the November immediately preceding the Plan Year of distribution."

26. Section 1.12 of Part B is hereby amended effective January 1, 1998 by the addition of the following at the end thereof:

"For purposes of this definition of Compensation, contributions pursuant to a cafeteria plan established under Section 125 of the Code shall include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as a contribution under Section 125 of the Code only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan."

27. Section 1.12 of Part B is hereby further amended by the addition of the following at the end thereof:

"Notwithstanding any provision of the Plan the contrary, in no event shall a Participant's Compensation taken into account under the Plan for any Plan Year beginning on or after January 1, 2002 exceed the applicable limit specified in Code Section 401(a)(17)(A) for any Plan Year. This dollar limit on Compensation shall be adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment shall apply only to Compensation taken into account for Plan Years beginning with the Plan Year in which such increase is effective.

For purposes of determining benefit accruals in Plan Years beginning after December 31, 2001 for Participants who earn an Hour of Service after December 31, 2001, Compensation for any prior Plan Year shall be limited to \$200,000."

28. Article VIII of Part B is hereby amended effective as of January 1, 2003 by the addition of the following new Section 8.01:

"8.01 MINIMUM DISTRIBUTION REQUIREMENTS

(g) GENERAL RULES

(k) **EFFECTIVE DATE.** The provisions of this Section 8.01 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.

(viii) **PRECEDENCE.** The requirements of this article will take precedence over any inconsistent provisions of the Plan.

(ix) **REQUIREMENTS OF TREASURY REGULATIONS INCORPORATED.** All distributions required under this Section 8.01 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code.

(x) **TEFRA SECTION 242(b)(2) ELECTIONS.** Notwithstanding the other provisions of this Section 8.01, other than paragraph (a)(iii) above, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242(b)(2) of the Tax Equity and Fiscal Responsibility Act ("TEFRA") and the provisions of the Plan that relate to Section 242(b)(2) of TEFRA.

(h) **TIME AND MANNER OF DISTRIBUTION**

(k) **REQUIRED BEGINNING DATE.** The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.

(ii) **DEATH OF PARTICIPANT BEFORE DISTRIBUTIONS BEGIN.** If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:

(A) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 1/2, if later.

(B) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.

(C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.

(D) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse begin, this Subsection 8.01(b)(ii), other than Subsection 8.01(b)(ii)(A), will apply as if the surviving Spouse were the Participant.

For purposes of this Subsection 8.01(b)(ii) and Subsection 8.01(e), distributions are considered to begin on the Participant's Required Beginning Date (or, if Subsection 8.01(b)(ii)(D) applies, the date distributions are required to begin to the surviving Spouse under Subsection 8.01(b)(ii)(A)). If annuity payments irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Subsection 8.01(b)(ii)(A)), the date distributions are considered to begin is the date distributions actually commence.

(iii) FORM OF DISTRIBUTION. Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections (c), (d) and (e) of this Section 8.01. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations. Any part of the Participant's interest which is in the form of an individual account described in Section 414(k) of the Code will be distributed in a manner satisfying the requirements of section 401(a)(9) of the Code and the Treasury regulations that apply to individual accounts.

(i) DETERMINATION OF AMOUNT TO BE DISTRIBUTED EACH YEAR

(i) GENERAL ANNUITY REQUIREMENTS. If the Participant's interest is paid in the form of annuity distributions under the plan, payments under the annuity will satisfy the following requirements:

- (A) the annuity distributions will be paid in periodic payments made at intervals not longer than one year;
 - (B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Subsection (d) or (e);
 - (C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted;
 - (D) payments will either be nonincreasing or increase only as follows:
 - (1) by an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics;
 - (2) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit upon death, but only if the Beneficiary whose life was being used to determine the distribution period described in Subsection (d) dies or is no longer the Participant's Beneficiary pursuant to a Qualified Domestic Relations Order within the meaning of section 414(p);
 - (3) to provide cash refunds of employee contributions upon the Participant's death; or
 - (4) to pay increased benefits that result from a Plan amendment.
- (ii) **AMOUNT REQUIRED TO BE DISTRIBUTED BY REQUIRED BEGINNING DATE.** The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Subsection 8.01(b)(ii)(A) or (B) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, e.g., bi-monthly, monthly, semi-annually, or annually. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the

amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.

(iii) **ADDITIONAL ACCRUALS AFTER FIRST DISTRIBUTION CALENDAR YEAR.** Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues.

(d) REQUIREMENTS FOR ANNUITY DISTRIBUTIONS THAT COMMENCE DURING PARTICIPANT'S LIFETIME

(i) **JOINT LIFE ANNUITIES WHERE THE BENEFICIARY IS NOT THE PARTICIPANT'S SPOUSE.** If the Participant's interest is being distributed in the form of a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the Participant using the table set forth in Q&A-2 of Section 1.401(a)(9)-6T of the Treasury regulations. If the form of distribution combines a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary and a period certain annuity, the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.

(ii) **PERIOD CERTAIN ANNUITIES.** Unless the Participant's Spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the Benefit Commencement Date. If the Benefit Commencement Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Benefit Commencement Date. If the Participant's Spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Subsection (d)(ii), or the joint life and last

survivor expectancy of the Participant and the Participant's Spouse as determined under the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the calendar year that contains the Benefit Commencement Date.

(e) REQUIREMENTS FOR MINIMUM DISTRIBUTIONS WHERE PARTICIPANT DIES BEFORE DATE DISTRIBUTIONS BEGIN

(i) PARTICIPANT SURVIVED BY DESIGNATED BENEFICIARY. If the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Subsection (b)(ii)(A) or (B), over the life of the Designated Beneficiary or over a period certain not exceeding:

(A) unless the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death; or

(B) if the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year that contains the Benefit Commencement Date.

(ii) NO DESIGNATED BENEFICIARY. If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death

(iii) DEATH OF SURVIVING SPOUSE BEFORE DISTRIBUTIONS TO SURVIVING SPOUSE BEGIN. If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Subsection (e) will apply as if the surviving Spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Subsection (b)(ii)(A).

(f) DEFINITIONS

(i) DESIGNATED BENEFICIARY. The individual who is designated as the Beneficiary and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.

(ii) DISTRIBUTION CALENDAR YEAR. A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Subsection (b)(ii).

(iii) LIFE EXPECTANCY. Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.

(iv) REQUIRED BEGINNING DATE. The date described in Section 5.06(b) of the Plan."

29. Subsection 14.17(b)(i) of Part B is hereby amended by the addition of the following at the end thereof:

"Effective for distributions after December 31, 2001,

(1) an Eligible Rollover Distribution does not include any hardship distribution, and

(2) a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible."

30. Subsection 14.17(b)(ii) of Part B is hereby amended by the addition of the following at the end thereof:

"Effective for distributions after December 31, 2001, an Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by an eligible employer described in Section 457(e)(1)(A) of the Code.

The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p)."

31. Article XI of part B is hereby amended effective for claims filed on or after January 1, 2003 by the deletion of Section 11.11 and the substitution in lieu thereof of the following:

"11.1.1 PROCEDURE FOR CLAIMING BENEFITS UNDER THE PLAN

(a) Claims for benefits under the Plan made by a Participant or Beneficiary covered by the Plan must be submitted in writing to the Committee. Approved claims will be processed and instructions issued to the Trustee authorizing payments as claimed.

If a claim is denied in whole or in part, the Committee shall notify the claimant of its decision by written notice, in a manner calculated to be understood by the claimant. The Committee shall set forth in the notice:

(i) the specific reason or reasons for the denial of the claim;

(ii) the specific references to the pertinent Plan provisions on which the denial is based;

(iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary;

(vi) an explanation of the Plan's claim review procedure; and

(v) a statement of the claimant's right to bring a civil action in accordance with section 502(a) of ERISA if the claimant's claim is denied upon review.

Such notification shall be given within 90 days after the claim is received by the Committee. This period may be extended for another 90 days if the claimant is notified that the extension is necessary due to matters beyond the control of the Plan, before the end of the original 90-day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

(b) Upon denial of a claim in whole or in part, a claimant or his duly authorized representative shall have the right to submit a written request to the Committee for a full and fair review of the denied claim, to submit written comments, documents, records, and other information relating to the claim, and to be

provided, upon request and free of charge, access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits. A request for review of a claim must be submitted within 60 days of receipt by the claimant of written notice of the denial of the claim.

The Committee shall advise the claimant of the results of the review within 60 days after receipt of the written request for review. This period may be extended for another 60 days if the Committee determines that special circumstances require an extension of time for processing the request and if written notice of such extension and circumstances is given to such claimant within the initial 60 day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

In the event an appeal is denied, the claimant will be notified in writing. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a statement of the claimant's right to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (iv) a statement of the claimant's right to bring a civil action in accordance with Section 502(a) of ERISA.

The decision of the Committee by majority vote shall be final and binding upon any and all claimants, including but not limited to Participants and their Beneficiaries, and any other individuals making a claim through or under them."

32. Subsection 5.04(d)(iv) of Part B is hereby amended by the deletion of the phrase "\$90,000" wherever it appears and the substitution in lieu thereof of the following:

"the dollar limitation specified in Code Section 415(b)(1)(A)."

And further amended by the addition of the following at the end thereof:

"The new limit specified in Section 415(b)(1)(A) of the Code shall apply only to Participants who are credited with at least one Hour of Service on or after the first day of the first Limitation Year beginning after December 31, 2001."

33. Subsection 5.04(d)(iii) of Part B is hereby amended effective January 1, 1998 by the addition of the following:

"For Limitation Years beginning on or after January 1, 1998, for purposes of determining Section 415 Compensation, amounts included pursuant to

Section 125 of the Code shall include amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan."

34. Subsection 5.04(d)(x)(c) of Part B is hereby deleted.

35. Subsection 5.04(d)(x)(D) of Part B is hereby amended by the addition of the following at the end thereof:

"Notwithstanding the foregoing, for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences prior to age 62, the maximum dollar limitation defined in paragraph (a)(i), adjusted by paragraph (d), shall be the actuarial equivalent of such amount payable at age 62. For purposes of this paragraph, actuarial equivalent shall be based on the plan's early retirement reductions or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller amount."

36. Subsection 5.04(d)(x)(E) of Part B is hereby amended by the addition of the following at the end thereof:

"Notwithstanding the foregoing, effective for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences after his or her attainment of age 65, the dollar limitation defined in paragraph (a)(i) above, adjusted by paragraph (d), shall be increased so it is the actuarial equivalent of such amount payable commencing at age 65. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02(d), or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller increase."

37. Section 5.04(d)(x) of Part B is hereby amended by the addition of the following subsection (F) at the end thereof:

"(F) Notwithstanding any other Plan provision to the contrary, with respect to distributions with benefit commencement dates occurring on or after January 1, 2003 the mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C) or (D) of the Code shall be the mortality table specified in Section 417(e)(3) of the Code."

38. Article XV of Part B is hereby replaced in its entirety by the following effective January 1, 2002]:

"15.01 TOP HEAVY PROVISIONS

(a) For purposes of this Section, the following terms shall have the meanings indicated below:

(i) "AGGREGATION GROUP" means either:

- (A) A "PERMISSIVE AGGREGATION GROUP". The Committee may also include any other qualified plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Sections 401(a)(4) and 410 of the Code. Such group shall be known as a Permissive Aggregation Group.
- (B) A "REQUIRED AGGREGATION GROUP". In determining a Required Aggregation Group hereunder, each qualified plan of the Employer or an Affiliated Employer in which a Key Employee participates and each other plan of the Employer or an Affiliated Employer, including terminated plans maintained within the one-year period ending on the Determination Date, which enables any plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) or 410 of the Code will be required to be aggregated. Such group shall be known as a Required Aggregation Group. Notwithstanding the foregoing, the Required Aggregation Group will not include "safe harbor" plans described in Section 401(k)(12) and 401(m)(11) of the Code.

Solely for purposes of determining if the Plan or any other qualified plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits of Non-Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or Affiliated Employers or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

In no event shall this Plan be considered a top heavy plan if it is part of a Required Aggregation Group or a Permissive Aggregation Group that is not a top heavy group.

Only those plans of the Employer or Affiliated Employers in which the determination dates fall within the same calendar year

shall be aggregated in order to determine whether such plans are top heavy plans.

- (ii) "DETERMINATION DATE" means the last day of the preceding Plan Year, except that for the first Plan Year the Determination Date is the last day of that Plan Year.
 - (iii) "EMPLOYEE", "FORMER EMPLOYEE", "KEY EMPLOYEE" and "NON-KEY EMPLOYEE" shall also include Beneficiaries of such an employee.
 - (iv) "KEY EMPLOYEE" means any employee or former employee (including any deceased employee) of the Employer or an Affiliated Employer who at any time during the Plan Year containing the Determination Date for the Plan Year in question is:
 - (A) An officer of the Employer or Affiliated Employer, if such individual received Section 415 Compensation of more than \$130,000 as adjusted. No more than 50 employees (or, if lesser, the greater of 3 employees or 10% of the employees) shall be treated as officers (exclusive of employees described in Section 414(q)(8) of the Code).
 - (B) A 5% owner of the Employer or an Affiliated Employer. A "5% owner" means a person owning (or considered as owning, within the meaning of Section 318 of the Code) more than 5% of the outstanding stock of the Employer or an Affiliated Employer, or stock possessing more than 5% of the total combined voting power of all stock of the Employer or an Affiliated Employer (or having more than 5% of the capital or profits interest in any Employer or Affiliated Employer that is not a corporation determined under similar principles).
 - (C) A 1% owner of the Employer or an Affiliated Employer having Section 415 Compensation of more than \$150,000. A "1% owner" means any person who would be described in paragraph (a)(iv)(B) above if "1%" were substituted for "5%" in each place where it appears in paragraph (a)(iv)(B).
- A Key Employee shall be determined in accordance with the provisions of Section 416(i) of the Code.
- (v) "NON-KEY EMPLOYEE" means an employee who is not a Key Employee, including any employee who is a former Key Employee.

(vi) "VALUATION DATE" means the date used to calculate the value of accrued benefits or account balances for purposes of determining the top heavy ratio specified in paragraph (b) below.

For purposes of this Plan, the Valuation Date shall be the valuation date used for computing the Plan's minimum funding requirements under Section 412 of the Code. For each other plan, the Valuation Date shall be, subject to Section 416 of the Code, the most recent Valuation Date which falls within or ends within the twelve consecutive months ending on the applicable determination date for such plan.

(b) TOP HEAVY PLAN

The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

(i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the one-year period ending on the Determination Date (in the case of any distribution made for a reason other than separation from service, death or disability, the five-year period ending on the Determination Date) shall be taken into consideration.

(ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the one-year period ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such one-year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall have credited to his defined contribution plan account a minimum Employer contribution equal to the minimum contribution provided by such defined contribution plan; however, in no event shall the minimum Employer contribution be less than 5% of such Participant's Section 415 Compensation. No Minimum Benefit shall accrue under this Plan.

(iii) If an Employee is a Non-Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.

(iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Non-Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

(v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.

(vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.02.

(vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.

(viii) "Deductible employee contributions" (within the meaning of Section 501(c)(18)(D) of the Code) contributed to any plan in the Aggregation Group shall not be taken into consideration.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

(c) Notwithstanding any other provision of the Plan to the contrary, for any Plan Year in which the Plan is deemed to be a top heavy plan, the following provisions shall apply:

(i) MINIMUM VESTING

Any Participant who completes an Hour of Service in a Plan Year in which the Plan is deemed to be a top heavy plan shall have a nonforfeitable interest in a percentage of his or her Accrued Benefit determined by multiplying the Accrued Benefit by the applicable percentage from the following schedule:

YEARS OF VESTING SERVICE	VESTED PERCENTAGE
Less than 3 years	0 %
3 or more years	100 %

Furthermore, if the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule.

The provisions of this paragraph (c)(i) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of the Plan.

(ii) MINIMUM BENEFIT

Each Participant who is a Non-Key Employee shall have an Accrued Benefit calculated as of the last day of the top heavy Plan Year or, if earlier, as of his or her Severance from Service Date occurring during such Plan Year, at least equal to the product of (A) 2% of his or her Section 415 Compensation (as defined in Section 415(c) of the Code) from an Employer or Affiliated Employer during the five consecutive years for which the Participant had the highest Compensation, and (B) his or her years of Benefit Service up to a maximum of ten years. For purposes of this paragraph (ii), years of Benefit Service shall not include Plan Years during which the Plan is not a top heavy plan nor a Plan Year in which no Key or former Key Employee benefits under the Plan.

For purposes of this Plan, the minimum annual retirement benefit means a benefit payable annually in the form of a single life annuity (with no ancillary benefits) beginning at a Participant's Normal Retirement Date.

If a Non-Key Employee participates in a defined contribution plan included in the Aggregation Group, the minimum benefit shall be provided under this Plan.

(iii) In any Plan Year that the Plan ceases to be top heavy, the above provisions shall no longer apply, except that the portion of a Participant's Accrued Benefit which was vested pursuant to paragraph (i) above shall remain vested."

IN WITNESS WHEREOF, the Sponsoring Employer has caused this amendment to be executed by its duly authorized representative and its seal affixed hereto on this 28h day of October, 2002.

WATTS INDUSTRIES, INC.

By: /s/ William C. McCartney

(Seal)

EXHIBIT 10.13

WATTS INDUSTRIES, INC.

2003 NON-EMPLOYEE DIRECTORS' STOCK OPTION PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Watts Industries, Inc. 2003 Non-Employee Directors' Stock Option Plan (the "Plan"). The purpose of the Plan is to promote the interests of Watts Industries, Inc. (the "Company") by providing an incentive to obtain and retain the services of highly-qualified persons who are neither officers nor employees of the Company to serve as members of the Board of Directors of the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"ACT" means the Securities Act of 1933, as amended, and the rules and regulations thereunder.

"BOARD" means the Board of Directors of the Company.

"CODE" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"EFFECTIVE DATE" means the date on which the Plan is approved by stockholders as set forth in Section 9.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder.

"FAIR MARKET VALUE" of the Stock on any given date means the fair market value of the Stock determined in good faith by the Board; provided, however, that if the Stock is admitted to quotation on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), NASDAQ National System or a national securities exchange, the determination shall be made by reference to market quotations. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

"NON-EMPLOYEE DIRECTOR" means a member of the Board who is not also an officer or employee of the Company or any Subsidiary.

"NON-QUALIFIED STOCK OPTION," "OPTION" or "STOCK OPTION" means any option

to purchase shares of Stock granted pursuant to Section 5.

"STOCK" means the class A common stock, par value \$.10 per share, of the Company, subject to adjustments pursuant to Section 3.

"SUBSIDIARY" means any corporation or other entity (other than the Company) in which the Company has a controlling interest, either directly or indirectly.

SECTION 2. ADMINISTRATION OF PLAN

(a) ADMINISTRATION. The Plan shall be administered by the Board.

(b) POWERS OF BOARD. The Board shall have the power and authority:

(i) to determine and modify from time to time the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Option, which terms and conditions may differ among individual Options and grantees, and to approve the form of written instruments evidencing the Options; and

(ii) at any time to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Option (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Board shall be binding on all persons, including the Company and Plan grantees.

(c) INDEMNIFICATION. Neither the Board, nor any member nor any delegatee thereof, shall be liable for any act, omission, interpretation, construction or determination made in good faith in connection with the Plan, and the members of the Board (and any delegatee thereof) shall be entitled in all cases to indemnification and reimbursement by the Company in respect of any claim, loss, damage or expense (including, without limitation, reasonable attorneys' fees) arising or resulting therefrom to the fullest extent permitted by law and/or under any directors' and officers' liability insurance coverage which may be in effect from time to time.

SECTION 3. STOCK ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) STOCK ISSUABLE. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 85,000 shares, subject to adjustment as provided in Section 3(b). For purposes of this limitation, the shares of Stock underlying any Options which are forfeited, canceled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan. The shares available for issuance under the Plan may be authorized but unissued shares of Stock or shares of Stock reacquired by the Company and held in its treasury.

(b) CHANGES IN STOCK. Subject to Section 3(c) hereof, if, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of

the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger or consolidation, sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for a different number or kind of securities of the Company or any successor entity (or a parent or subsidiary thereof), the Board shall make an appropriate or proportionate adjustment in (i) the maximum number of shares reserved for issuance under the Plan, (ii) the number and kind of shares or other securities subject to any then outstanding Options under the Plan, (iii) the number of Stock Options automatically granted to Non-Employee Directors, and (vi) the price for each share subject to any then outstanding Stock Options under the Plan, without changing the aggregate exercise price (i.e., the exercise price multiplied by the number of Stock Options) as to which such Stock Options remain exercisable. The adjustment by the Board shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Board in its discretion may make a cash payment in lieu of fractional shares.

The Board may also adjust the number of shares subject to outstanding Options and the exercise price and the terms of outstanding Options to take into consideration material changes in accounting practices or principles, extraordinary dividends, acquisitions or dispositions of stock or property or any other event if it is determined by the Board that such adjustment is appropriate to avoid distortion in the operation of the Plan.

(c) **MERGERS AND OTHER TRANSACTIONS.** Notwithstanding any other provisions of the Plan, in the event that a transaction occurs that results in the Stock not being registered under Section 12 of the Exchange Act, all Options shall terminate upon the completion of the transaction. In all other transactions, the Board may either arrange for replacement Options or terminate all Options in exchange for payment in cash or in kind.

SECTION 4. ELIGIBILITY

Grantees under the Plan will be the Non-Employee Directors of the Company.

SECTION 5. STOCK OPTIONS

(a) AUTOMATIC GRANT OF OPTIONS.

(i) Each Non-Employee Director who is serving as Director of the Company on the fifth business day after each annual meeting of stockholders of the Company, beginning with the annual meeting held in 2003, shall automatically be granted on such day a Non-Qualified Stock Option to acquire 3,094 shares of Stock.

(ii) The exercise price per share for the Stock covered by a Stock Option granted hereunder shall be equal to the Fair Market Value of the Stock on the date the Stock Option is granted.

(b) EXERCISE; TERMINATION.

(i) All Options granted hereunder shall be exercisable in full as of the grant date. An Option granted hereunder shall not be exercisable after the expiration of ten years from the date of grant.

(ii) Options granted hereunder may be exercised only by written notice to the Company specifying the number of shares to be purchased. Payment of the full purchase price of the shares to be purchased may be made by one or more of the methods specified in Section 5(e).

(c) NON-TRANSFERABILITY OF OPTIONS. No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee, or by the optionee's legal representative or guardian in the event of the optionee's incapacity. Notwithstanding the foregoing, the Board, in its sole discretion, may provide in the Option agreement regarding a given Option that the optionee may transfer his Non-Qualified Stock Options to members of his immediate family, to trusts for the benefit of such family members, or to partnerships in which such family members are the only partners, provided that the transferee agrees in writing with the Company to be bound by all of the terms and conditions of this Plan and the applicable Option.

(d) RIGHTS OF A STOCKHOLDER. An optionee shall have the rights of a stockholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(e) METHOD OF EXERCISE. Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods:

(i) In cash, by certified or bank check or other instrument acceptable to the Board;

(ii) Through the delivery (or attestation to the ownership) of shares of Stock that have been purchased by the optionee on the open market or that have been beneficially owned by the optionee for at least six months and are not then subject to restrictions under any Company plan. Such surrendered shares shall be valued at Fair Market Value on the exercise date; or

(iii) To the extent permitted by applicable law, by the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company for the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Board shall prescribe as a condition of such payment procedure.

Payment instruments will be received subject to collection. The delivery of certificates representing the shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Option agreement or applicable provisions of laws. In the event an optionee chooses to pay the purchase price by previously-owned shares of Stock through the attestation method, the number of shares of Stock transferred to the optionee upon the exercise of the Stock Option shall be net of the number of shares attested to.

SECTION 6. AMENDMENTS AND TERMINATION

The Board may, at any time, amend or discontinue the Plan and the Board may, at any time, amend or cancel any outstanding Option for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Option without the holder's consent. Except as provided in Section 3(b) or 3(c), in no event may the Board exercise its discretion to reduce the exercise price of outstanding Stock Options or effect repricing through cancellation and re-grants.

SECTION 7. STATUS OF PLAN

With respect to the portion of any Option that has not been exercised and any payments in Stock or other consideration not received by a grantee, a grantee shall have no rights greater than those of a general creditor of the Company unless the Board shall otherwise expressly determine in connection with any Option or Options.

SECTION 8. GENERAL PROVISIONS

(a) **NO DISTRIBUTION; COMPLIANCE WITH LEGAL REQUIREMENTS.** The Board may require each person acquiring Stock pursuant to an Option to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Option until all applicable securities law and other legal and stock exchange or similar requirements have been satisfied. The Board may require the placing of such stop-orders and restrictive legends on certificates for Stock and Options as it deems appropriate.

(b) **DELIVERY OF STOCK CERTIFICATES.** Stock certificates to grantees under this Plan shall be deemed delivered for all purposes when the Company or a stock transfer agent of the Company shall have mailed such certificates in the United States mail, addressed to the grantee, at the grantee's last known address on file with the Company.

(c) **OTHER COMPENSATION ARRANGEMENTS.** Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, and such arrangements may be either generally applicable or applicable only in specific cases.

(d) **TRADING POLICY RESTRICTIONS.** Option exercises shall be subject to the Company's insider trading policy, as in effect from time to time.

(e) DESIGNATION OF BENEFICIARY. Each grantee to whom an Option has been made under the Plan may designate a beneficiary or beneficiaries to exercise any Option or receive any payment under any Option payable on or after the grantee's death. Any such designation shall be on a form provided for that purpose by the Board and shall not be effective until received by the Board. If no beneficiary has been designated by a deceased grantee, or if the designated beneficiaries have predeceased the grantee, the beneficiary shall be the grantee's estate.

SECTION 9. EFFECTIVE DATE OF PLAN

This Plan shall become effective upon approval by the holders of a majority of the votes cast at a meeting of stockholders at which a quorum is present. Subject to such approval by the stockholders and to the requirement that no Stock may be issued hereunder prior to such approval, Stock Options may be granted hereunder on and after adoption of this Plan by the Board.

SECTION 10. GOVERNING LAW

This Plan, all Options and actions taken hereunder and thereunder, shall be governed by, and construed in accordance with, the laws of the State of Delaware, applied without regard to conflict of law principles.

DATE APPROVED BY BOARD OF DIRECTORS: February 28, 2003

DATE APPROVED BY STOCKHOLDERS:

EXHIBIT 10.19

AMENDMENT NO. 3

WATTS INDUSTRIES, INC.

MANAGEMENT STOCK PURCHASE PLAN, AS AMENDED

March 1, 2001

The Watts Industries, inc. Management Stock Purchase Plan, As Amended ("Management Plan"), is hereby amended as follows:

1. The last two sentences of SECTION IV. PARTICIPATION, C. ELECTION TO PARTICIPATE, are hereby deleted in their entirety and replaced with the following:

IV. Participation

C. ELECTION TO PARTICIPATE. ...Subscription Agreements must be received by the Company no later than June 30 of the fiscal year for which such bonus amount will be determined. A participant who is not subject to the short-swing profits rule of Section 16 of the Act may revise his or her Subscription Agreement with respect to the amount of elected RSU s no later than December 1 of the fiscal year for which such bonus will be determined.

2. Except as provided for in the Amendment No. 3, all of the terms and conditions of the Management Plan shall remain in full force and effect.

EXECUTED as of the date first set forth above.

Watts Industries, Inc.

By: /s/ William C. McCartney

William C. McCartney
Treasurer, Secretary and
Chief Financial Officer

SEPARATION AND RELEASE AGREEMENT

This Separation and Release Agreement ("Agreement") is entered into by and between Michael O. Fifer ("Employee"), of 14 Woodcrest Road, Manchester, Massachusetts 01944 and Watts Industries, Inc., including its subsidiaries and affiliates (hereinafter referred to individually and collectively as "the Company"), with a principal office at 815 Chestnut Street, North Andover, Massachusetts 01845. The purpose of this Agreement is to establish an amicable arrangement for ending Employee's employment relationship with the Company as of May 31, 2003.

Employee acknowledges that he is entering into this Agreement voluntarily and that the Company has advised him in writing to seek the advice of an attorney prior to executing this Agreement. Employee further acknowledges that he has carefully read and fully understands all aspects of this Agreement, including that he is voluntarily giving up his right to bring any and all possible legal claims against the Company, including but not limited to claims relating to his employment or the termination thereof. By entering into this Agreement, Employee acknowledges that the Company is not admitting in any way that it violated any legal obligation that it owed to him or to any person.

In exchange for the Company's payment of severance and other valuable consideration as set forth in this Agreement, and Employee's execution of this Agreement and agreement to terminate his employment with the Company effective May 31, 2003 (hereinafter referred to as the "Termination Date") and the Employee's agreement to release and waive any and all claims against the Company, as set forth in Paragraphs 13 and 14 below, the Company and Employee mutually agree as follows:

(1) The Company will consider Employee as an inactive employee of the Company for the period from November 25, 2002 to May 31, 2003 ("Inactive Employee Period"). During the Inactive Employee Period, Employee will be paid his regular base salary, less the usual deductions for taxes and benefits. Such salary payments shall take place on the following dates in accordance with the Company's usual payroll cycle: December 16, 2002; and on or about the 16th day of January through May, 2003. As an inactive employee, Employee will not perform any duties for or on behalf of the Company unless expressly authorized by the Company in writing. During this period, Employee agrees that he will provide services to the Company on an as-needed basis.

(2) Commencing effective June 1, 2003, the Company agrees to pay severance payments to Employee consisting of continuation of Employee's base salary rate in effect on the Termination Date, less appropriate federal, state, FICA and other payroll deductions, for seven (7) months through December 31, 2003 ("the Severance Pay Period"). The severance payments will be made on a monthly basis on or about the 16th day of each month in the Severance Pay Period in accordance with the Company's normal payroll cycle.

(3) Employee has already been paid his salary wages, less the usual deductions, up to and including November 29, 2002. Employee will not report to work after November 25, 2002. Employee will be considered to have resigned from active employment and as an officer of the Company and any of its subsidiaries and affiliates effective as of November 25, 2002.

(4) Medical and dental plan participation will continue under the Company's plans until May 31, 2003 at which point Employee's eligibility to participate in such plans cease unless Employee exercises extension rights under the COBRA law as will be explained under separate cover. Upon Employee's election of COBRA coverage, the Company agrees to pay Employee's medical and dental, if any, COBRA premium for the Severance Pay Period, subject to his continued eligibility for COBRA coverage.

(5) Employee's participation in the Company's other benefit plans shall cease in accordance with their terms on May 31, 2003. This includes, without limitation, the termination of Employee's participation in the following Company Plans in accordance with the terms of the respective plan provisions: Stock Option Plans; Management Stock Purchase Plan; Short-Term Disability Plan; Long-Term Disability Plan; Pension Plan; Supplemental Pension Plan; 401(k) Plan; and Life Insurance Plan.

(6) Employee will separately receive a payment equal to fourteen (14) days accrued vacation, less appropriate tax withholdings. As an inactive employee, no vacation will accrue to Employee for fiscal year 2004.

(7) In accordance with the provisions of the Executive Bonus Plan in which Employee participates, the Company will pay Employee his bonus earned for fiscal year 2002, less the usual tax deductions, in accordance with the established performance goals and guidelines, if and when such bonuses are awarded in the normal course of the Company's business. Mr. Fifer will not be eligible to participate in the Executive Bonus Plan for fiscal year 2003.

(8) The Company will provide the Employee with a senior executive outplacement program through Lee Hecht Harrison for a period of one (1) year.

(9) Mr. Fifer's outstanding loan under the Executive Stock Purchase Loan Plan ("Loan Plan") will be handled in accordance with the terms of the Loan Plan and the Promissory Note executed by Employee.

(10) Except for the Company cell phone, computer equipment, and automobile (all of which Employee agrees to return to the Company on or before December 31, 2002), Employee hereby represents that he has delivered, or will deliver, to the Company any Company property previously provided to him by the Company together with any and all documents, tapes, computer discs, software,

information, records, drawings, data or any other Company information and materials in any format which were in his possession or under his control.

(11) Employee also acknowledges and agrees that during the course of his employment with the Company he obtained or was otherwise provided with confidential and proprietary information from the Company in confidence for use in connection with his work for the Company. Employee agrees not to use such information or to disclose such information to others. "Confidential Information" shall include, but not be limited to, customer lists, brochures, drawings, techniques, processes, "know-how", reports, and other such information of any nature made available to Employee by virtue of Employee's association with the Company. This Confidential Information shall be held in strict confidence for as long as this Confidential Information is not known or available to the general public.

(12) The parties agree that Employee's employment with the Company will be terminated effective May 31, 2003. Employee understands that in exchange for his release of claims, and other consideration set forth in this Agreement, against the Company and others, he is eligible to receive the severance pay and other valuable consideration as set forth in this Agreement. Employee acknowledges that he is entitled to no other compensation or benefits, other than as expressly set forth in this Agreement, and he hereby waives all claims thereto.

(13) Except for certain vested pension benefits, if any, Employee, of his own free will, hereby voluntarily releases and forever discharges the Company, its subsidiaries and affiliates, and its and their predecessors, successors and assigns and its and their current and former directors, officers, shareholders, employees and agents, both individually and in their official capacities with those entities, of and from any and all actions or causes of action, suits, claims, demands, liabilities, charges, complaints, contracts, agreements and promises, whatsoever, in law or equity, which against any of them, Employee, his heirs, executors, administrators, successors, and assigns may now have or hereafter can, shall or may have for, upon or by reason of any matter, cause or action whatsoever, whether or not known to him, that has occurred up to the date of his execution of this Agreement, including without limitation those claims arising out of (a) his employment by the Company (except only such matter as to which Employee is entitled to coverage as an insured, pursuant to the terms of any insurance policy owned by the Company at the time that matter shall be deemed to have occurred), (b) the compensation, benefits, terms and conditions of his employment and (c) the decision that his employment shall cease, including but not limited to, any alleged violation of TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, AS AMENDED, THE CIVIL RIGHTS ACT OF 1991, SECTIONS 1981 THROUGH 1988 OF TITLE 42 OF THE UNITED STATES CODE, AS AMENDED, THE NATIONAL LABOR RELATIONS ACT, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE FAMILY MEDICAL LEAVE ACT (29 U.S.C. SEC. 2601, ET SEQ.), THE OCCUPATIONAL SAFETY

AND HEALTH ACT, THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, AS AMENDED, THE OLDER WORKERS BENEFIT PROTECTION ACT, 29 U.S.C. SECTION 626(f) (1997) and any other federal, state or local laws, regulations or ordinances, and/or public policy, contract or tort law, having any bearing whatsoever on the terms and conditions and/or cessation of his employment with the Company, or any of its subsidiaries and affiliates and any predecessors or successors thereof, he ever had or has as of the date of his execution of this Agreement.

(14) Employee waives the right to file any charge or complaint on his own behalf and/or to participate in any charge or complaint which may be made by any other person or organization on his behalf before any federal, state, or local court or administrative agency against the Company, or any of its subsidiaries and affiliates and its predecessors, successors, assigns, current and former directors, officers, shareholders, employees or agents, except as such waiver is prohibited by law. Should any such charge or complaint be filed, Employee agrees that he will not accept any relief or recovery therefrom. Employee confirms that no charge, complaint, or action exists in any forum or form.

(15) Employee acknowledges that he has been given the opportunity to consider this Agreement for twenty-one (21) days before signing it. In the event that Employee signs this Agreement within less than twenty-one (21) days of his receiving it, he acknowledges that he did so voluntarily and with knowledge of the opportunity to consider this Agreement for the entire twenty-one (21) day period. Employee also acknowledges that for a period of seven (7) days following the date he signs this Agreement he may revoke its terms by written notice sent to RONALD W. GORSKI, CORPORATE ATTORNEY AT 815 CHESTNUT STREET, NORTH ANDOVER, MA 01845 and postmarked within seven (7) days of execution. This Agreement shall not become effective or enforceable until the seven (7) day period following his execution hereof has expired, unless the seventh (7th) day is a Saturday, Sunday or legal holiday in Massachusetts, in which event the revocation period shall not expire until the next following day which is not a Saturday, Sunday or legal holiday. No payments will be made under this Agreement until the seven-day period has expired following Employee's execution of this Agreement.

(16) Employee agrees to not make any disparaging statements concerning the Company or any of its subsidiaries or affiliates or current or former officers, directors, employees or agents. Employee further agrees not to take any actions or conduct himself in any way that could reasonably be expected to adversely affect the reputation or goodwill of the Company or any of its current or former officers, directors, employees or agents. Employer agrees to direct all employees whom it informs the terms of this Agreement (other than as a result of a financial disclosure) not to make any disparaging statements concerning the Employee.

(17) Employee agrees that he will not solicit any of Employer's employees for a competing business or otherwise induce or attempt to induce such employees to terminate their employment with Employer for the period of time through December 31, 2003.

(18) This Agreement shall be construed to be a contract to be governed by the laws of the Commonwealth of Massachusetts, excluding its conflicts of laws principles. The parties agree that this Agreement represents the entire agreement of the parties and supersedes (except as set forth in Paragraph 6) all prior communications, agreements or understandings, either oral or written, if any, regarding the terms of his termination.

(19) The parties have read and fully considered each and every paragraph of the foregoing Agreement and are mutually desirous of entering into such Agreement, provided Employee shall have executed, notarized and returned three (3) originals of this Agreement to the attention of Ronald W. Gorski, Corporate Attorney at the address set forth in paragraph 15 NO LATER THAN MONDAY, DECEMBER 30, 2002. No severance payments shall be made or other valuable consideration extended under this Agreement unless and until the Employee executes the Agreement and returns it to the Company as provided in the immediately preceding sentence.

(20) Employee agrees to keep the existence and terms of this Agreement and the negotiations leading to this Agreement in the strictest confidence at all times and not reveal the existence or terms of this Agreement or such negotiations to any persons except his immediate family members, his attorney, and his financial advisors, and to them only provided that they also agree to keep such information completely confidential. Notwithstanding the foregoing, Employee may make disclosure to the extent required by law or to the extent reasonably necessary to enforce his rights under this Agreement, PROVIDED, HOWEVER, that he gives as much advance notice as reasonably possible to the Company concerning any such anticipated disclosure. Employee further represents that at all times before signing this Agreement, he has kept the negotiations leading to this Agreement completely confidential except for permitted disclosures as set forth in the first sentence of this Paragraph.

(21) If any term, covenant, condition or provision of this Agreement is held by a court of competent jurisdiction to be invalid, void, or unenforceable, the remaining terms, covenants and conditions shall remain in full force and effect.

EMPLOYEE HAS BEEN ADVISED THAT HE HAS AT LEAST TWENTY-ONE (21) DAYS TO CONSIDER THIS AGREEMENT AND HAS BEEN ADVISED IN WRITING TO CONSULT WITH AN ATTORNEY PRIOR TO EXECUTION OF THIS AGREEMENT. EMPLOYEE FURTHER UNDERSTANDS THAT HE MAY REVOKE THIS AGREEMENT

FOR A PERIOD OF SEVEN (7) DAYS FOLLOWING THE DAY HE EXECUTES THE AGREEMENT AND SAID AGREEMENT SHALL NOT BECOME EFFECTIVE OR ENFORCEABLE UNTIL THE REVOCATION PERIOD HAS EXPIRED. EMPLOYEE UNDERSTANDS THAT THIS AGREEMENT WILL BE A BINDING LEGAL DOCUMENT AND THAT HIS SIGNATURE WILL COMMIT HIM TO ITS TERMS. HAVING ELECTED TO EXECUTE THIS AGREEMENT, TO FULFILL THE PROMISES SET FORTH HEREIN, AND TO RECEIVE THEREBY THE SUMS AS SET FORTH IN PARAGRAPH 1 AND 2 ABOVE AND OTHER SUMS AND BENEFITS TO WHICH HE WOULD NOT OTHERWISE BE ENTITLED, EMPLOYEE FREELY AND KNOWINGLY, AND AFTER DUE CONSIDERATION, ENTERS INTO THIS AGREEMENT INTENDING TO WAIVE, SETTLE AND RELEASE ALL CLAIMS HE HAS OR MIGHT HAVE AGAINST THE COMPANY AND RELATED PERSONS AND ENTITIES.

NOW THEREFORE, the parties to this Agreement hereby set their hands and seals on this 30 day of DECEMBER, 2002.

/s/ Michael O. Fifer

Michael O. Fifer

Sworn to before me this 30th day of DECEMBER, 2002

/s/ Kathy Bradley

Notary Public
My Commission Expires: 9-7-02

WATTS INDUSTRIES, INC.

By: /s/ William C. McCartney

EXHIBIT 21

SUBSIDIARY	JURISDICTION OF INCORPORATION
Watts Industries, Inc.	DE
Watts Regulator Co.	MA
Watts Securities Corporation	MA
Watts Business Trust	MA
Webster Investment Company	DE
Watts Drainage Products, Inc.	DE
Jameco Industries, Inc.	NY
Anderson-Barrows Metals Corporation	CA
Webster Valve, Inc.	NH
Rudolph Labranche, Inc.	NH
Ames Holdings, Inc.	DE
Watts Spacemaker, Inc.	CA
Watts Radiant, Inc.	DE
Watts Distribution Company, Inc.	DE
Watts Premier, Inc.	AZ
Hunter Innovations, Inc.	CA
Watts Interme GmbH	Austria
Watts Ocean NV	Belgium
Watts MTB AD	Bulgaria
Watts Industries Canada	Canada
Watts Investment Company Canada Ltd.	Canada

Tanguu Watts Valve Co., LTD	China
Tianjin Tanggu Watts Bronze Valve Company Limited	China
Taizhou Shida Pipe Product Manufacturing Co., Ltd.	China
Tianjin Watts Valve Co.	China
Watts Eurotherm SA	France
Watts Electronics SA	France
WIG Armaturen Vertriebs GmbH	Germany
Watts Germany Holding GmbH	Germany
Watts Industries Deutschland	Germany
WSA Heizungs & Sanitartechnik GmbH	Germany
WLC Verwaltungs & Beteiligungs GmbH	Germany
Watts Instrumentation GmbH	Germany
Watts Italy Holding SPA f/k/a Intemes SpA	Italy
Watts Londa SPA	Italy
Watts Intermes f/k/a WLI S.R.L.	Italy
Watts Cazzaniga S.p.A.	Italy
Immobiliare Cazziniga S.r.l.	Italy
Watts Stern Rubinetti S.r.l.	Italy
Watts Industries Europe BV	Netherlands
Philabel BV	Netherlands

Watts Ocean BV	Netherlands
Anderson Barrows Benelux BV	Netherlands
Watt Europe Services BV	Netherlands
Watts Industries, Sp. Z.o.o	Poland
Watts Industries Iberica SA	Spain
Watts Sweden Holding AB	Sweden
Watts Eminent AB	Sweden
Watts Industries Nordic AB	Sweden
Lefeva AB	Sweden
Watts Interme AG	Switzerland
Watts Industries Tunisia	Tunisia
Watts U.K. Ltd.	UK

Exhibit 23

INDEPENDENT AUDITORS' CONSENT

The Board of Directors and Stockholders
Watts Industries, Inc.

We consent to the incorporation by reference in the following registration statements of Watts Industries, Inc. (1) No. 333-32685 on Form S-8, (2) No. 33-37926 on Form S-8, (3) No. 33-69422 on Form S-8, (4) No. 33-64627 on Form S-8, (5) No. 33-30377 on Form S-8 and (6) No. 333-85862 on Form S-3 of our report dated February 12, 2003, except as to note 19, which is as of March 25, 2003, with respect to the Consolidated Balance sheets of Watts industries, Inc. and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2002 which report appears in the December 31, 2002 annual report on Form 10-K of Watts Industries, Inc.

/s/ KPMG LLP

*Boston, Massachusetts
March 26, 2003*

Exhibit 99.1

CERTIFICATION

The undersigned officer of Watts Industries, Inc. (the "Company") hereby certifies that the Company's annual report on Form 10-K for the twelve-month period ended December 31, 2002 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Date: March 26, 2003

/s/ Patrick S. O'Keefe

Patrick S. O'Keefe

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Watts Industries, Inc. and will be retained by Watts Industries, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 99.2

CERTIFICATION

The undersigned officer of Watts Industries, Inc. (the "Company") hereby certifies that the Company's annual report on Form 10-K for the twelve-month period ended December 31, 2002 (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company. This certification is provided solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Date: March 26, 2003

/s/ William C. McCartney

William C. McCartney
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Watts Industries, Inc. and will be retained by Watts Industries, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.