WATTS WATER TECHNOLOGIES INC

FORM 10-Q
(Quarterly Report)

Filed 5/12/2005 For Period Ending 4/3/2005

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended April 3, 2005

or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission file number 1-11499

WATTS WATER TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**04-2916536**
(State of incorporation)	(I.R.S. Employer Identification No.)
815 Chestnut Street, North Andover, MA	**01845**
(Address of principal executive offices)	(Zip Code)

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

(Former Name, Former Address and Former Fiscal year, if changed since last report.)

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

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

Class	Outstanding at April 30, 2005
Class A Common Stock, $.10 par value	25,091,676
Class B Common Stock, $.10 par value	7,343,880

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	April 3, 2005	December 31, 2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 61,532**	$ 65,913
Investment securities	**—**	26,600
Trade accounts receivable, less allowance for doubtful accounts of $7,319 at April 3, 2005 and $7,551 at December 31, 2004	**156,675**	150,073
Inventories, net:		
Raw materials	**55,778**	53,942
Work in process	**28,637**	28,020
Finished goods	**128,319**	121,082
Total Inventories	**212,734**	203,044
Prepaid expenses and other assets	**15,317**	14,359
Deferred income taxes	**27,809**	27,463
Assets of discontinued operations	**8,644**	10,227
Total Current Assets	**482,711**	497,679
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment, at cost	**322,709**	321,655
Accumulated depreciation	**(174,698)**	(170,966)
Property, plant and equipment, net	**148,011**	150,689
OTHER ASSETS:		
Goodwill	**234,039**	226,178
Other	**54,120**	49,702
TOTAL ASSETS	**$ 918,881**	$ 924,248
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	**$ 72,071**	$ 73,606
Accrued expenses and other liabilities	**63,051**	64,604
Accrued compensation and benefits	**25,638**	29,679
Current portion of long-term debt	**5,542**	4,981
Liabilities of discontinued operations	**23,456**	24,303
Total Current Liabilities	**189,758**	197,173
LONG-TERM DEBT, NET OF CURRENT PORTION	**178,983**	180,562
DEFERRED INCOME TAXES	**20,476**	19,578
OTHER NONCURRENT LIABILITIES	**25,558**	26,632
MINORITY INTEREST	**7,544**	7,515
STOCKHOLDERS' EQUITY:		
Preferred Stock, $.10 par value; 5,000,000 shares authorized; no shares issued or outstanding	**—**	—
Class A Common Stock, $.10 par value; 80,000,000 shares authorized; 1 vote per share; issued and outstanding: 25,091,676 shares at April 3, 2005 and 25,049,338 shares at December 31, 2004	**2,509**	2,505
Class B Common Stock, $.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding: 7,343,880 shares at April 3, 2005 and at December 31, 2004	**734**	734
Additional paid-in capital	**142,082**	140,172
Retained earnings	**333,884**	324,145
Deferred compensation	**(2,380)**	(1,386)
Accumulated other comprehensive income	**19,733**	26,618
Total Stockholders' Equity	**496,562**	492,788
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 918,881**	$ 924,248

See accompanying notes to consolidated financial statements.

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

	First Quarter Ended	
	April 3, 2005	**March 28, 2004**
Net sales	**$ 219,027**	$ 186,008
Cost of goods sold	**141,649**	121,096
GROSS PROFIT	**77,378**	64,912
Selling, general & administrative expenses	**55,706**	45,134
Restructuring and other charges	**362**	—
OPERATING INCOME	**21,310**	19,778
Other (income) expense:		
Interest income	**(309)**	(302)
Interest expense	**2,521**	2,544
Minority interest	**65**	175
Other	**(87)**	(164)
	2,190	2,253
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**19,120**	17,525
Provision for income taxes	**6,723**	6,530
INCOME FROM CONTINUING OPERATIONS	**12,397**	10,995
Income (loss) from discontinued operations, net of taxes	**(39)**	6
NET INCOME	**$ 12,358**	$ 11,001
BASIC EPS		
Income per share:		
Continuing operations	**$ .38**	$ .34
Discontinued operations	**—**	—
NET INCOME	**$ .38**	$ .34
Weighted average number of shares	**32,408**	32,136
DILUTED EPS		
Income per share:		
Continuing operations	**$ .37**	$ .34
Discontinued operations	**—**	—
NET INCOME	**$ .37**	$ .34
Weighted average number of shares	**33,032**	32,549
Dividends per share	**$ .08**	$ .07

See accompanying notes to consolidated financial statements.

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	First Quarter Ended	
	April 3, 2005	March 28, 2004
OPERATING ACTIVITIES		
Income from continuing operations	**$ 12,397**	$ 10,995
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:		
Depreciation	**6,479**	6,934
Amortization	**519**	139
Deferred income taxes	**(667)**	(348)
Other	**93**	4
Changes in operating assets and liabilities, net of effects from business acquisitions and divestitures:		
Accounts receivable	**(8,293)**	(17,846)
Inventories	**(11,239)**	(17,337)
Prepaid expenses and other assets	**(1,244)**	(5,472)
Accounts payable, accrued expenses and other liabilities	**(6,234)**	9,166
Net cash used in operating activities	**(8,189)**	(13,765)
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(4,602)**	(4,945)
Proceeds from the sale of property, plant and equipment	**22**	1,522
Investment in securities	**—**	(23,000)
Proceeds from sale of securities	**26,600**	—
Increase in other assets	**(293)**	(155)
Business acquisitions, net of cash acquired	**(17,267)**	(16,707)
Net cash provided by (used in) investing activities	**4,460**	(43,285)
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	**5,976**	10,229
Payments of long-term debt	**(5,458)**	(5,607)
Proceeds from exercise of stock options	**920**	2,639
Dividends	**(2,619)**	(2,274)
Net cash provided by (used in) financing activities	**(1,181)**	4,987
Effect of exchange rate changes on cash and cash equivalents	**(101)**	(491)
Net cash provided by discontinued operations	**630**	855
DECREASE IN CASH AND CASH EQUIVALENTS	**(4,381)**	(51,699)
Cash and cash equivalents at beginning of period	**65,913**	145,001
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 61,532**	$ 93,302
NON CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of businesses:		
Fair value of assets acquired	**$ 20,386**	$ 17,727
Cash paid, net of cash acquired	**17,267**	16,707
Liabilities assumed	**$ 3,119**	$ 1,020
CASH PAID FOR		
Interest	**$ 546**	$ 712
Taxes	**$ 3,944**	$ 1,976

See accompanying notes to consolidated financial statements.

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in Watts Water Technologies, Inc.'s Consolidated Balance Sheet as of April 3, 2005, its Consolidated Statements of Operations for the first quarter ended April 3, 2005 and the first quarter ended March 28, 2004, and its Consolidated Statements of Cash Flows for the first quarter ended April 3, 2005 and the first quarter ended March 28, 2004.

The balance sheet at December 31, 2004 has been derived from the audited financial statements at that date. The accounting policies followed by the Company are described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. It is suggested that the financial statements included in this report be read in conjunction with the financial statements and notes included in the December 31, 2004 Annual Report on Form 10-K. Operating results for the interim period presented are not necessarily indicative of the results to be expected for the year ending December 31, 2005.

The Company operates on a 52-week fiscal year ending on December 31. Any first quarter ended data contained in this Report on Form 10-Q reflects the results of operations for the 13-week period ended on the Sunday nearest March 31 of the respective year. There were four additional billing days in the first quarter ended April 3, 2005 than were in the first quarter ended March 28, 2004.

Certain amounts in fiscal year 2004 have been reclassified to permit comparison with the 2005 presentation. These reclassifications had no effect on reported results of operations or stockholders' equity.

2. Accounting Policies

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.

Goodwill and Long-Lived Assets

The changes in the carrying amount of goodwill by geographic segments from December 31, 2004 to April 3, 2005 are as follows:

	North America	Europe	China	Total
	(in thousands)			
Carrying amount at the beginning of period	$ 123,539	$ 98,117	$ 4,522	$ 226,178
Goodwill acquired during the period	10,583	—	—	10,583
Adjustments to goodwill during the period	250	—	924	1,174
Effect of change in exchange rates used for translation	(4)	(3,892)	—	(3,896)
Carrying amount at end of period	$ 134,368	$ 94,225	$ 5,446	$ 234,039

Other intangible assets include the following and are presented in "Other Assets: Other", in the April 3, 2005 Consolidated Balance Sheet:

	Gross Carrying Amount	Accumulated Amortization
	(in thousands)	
Patents	$ 9,205	$ (4,384)
Other	20,719	(3,023)
Total amortizable intangibles	29,924	(7,407)
Intangible assets not subject to amortization	20,540	—
Total	$ 50,464	$ (7,407)

Aggregate amortization expense for amortized other intangible assets for the first quarter of 2005 and 2004 were $519,000 and $139,000, respectively. Additionally, future amortization expense on other intangible assets will be approximately $1,547,000 for 2005, $2,080,000 for 2006, $1,819,000 for 2007, $1,739,000 for 2008 and $1,714,000 for 2009.

Stock Based Compensation

The Company accounts for stock based compensation 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 measure stock-based compensation 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).

	First Quarter Ended	
	April 3, 2005	March 28, 2004
	(in thousands)	
Net income, as reported	**$ 12,358**	$ 11,001
Add: Stock-based employee compensation expense from the Management Stock Purchase Plan included in reported net income, net of tax	**158**	96
Deduct: Stock-based employee compensation expense determined under the fair value method, net of tax:		
Restricted stock units (Management Stock Purchase Plan)	**(159)**	(112)
Employee stock options	**(170)**	(150)
Proforma net income	**$ 12,187**	$ 10,835
Earnings per share:		
Basic-as reported	**$ .38**	$ .34
Basic-proforma	**$ .37**	$ .34
Diluted-as reported	**$ .37**	$ .34
Diluted-proforma	**$ .37**	$ .34

Shipping and Handling

The Company's shipping costs included in selling, general and administrative expense were $6,192,000 and $5,783,000 for the first quarter of 2005 and 2004, respectively.

Research and Development

Research and development costs included in selling, general, and administrative expense were $2,919,000 and $2,361,000 for the first quarter of 2005 and 2004, respectively.

New Accounting Standards

On November 29, 2004, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Board Statement No. 151, "Inventory Costs" (FAS 151). FAS 151 amends the guidance in Accounting Research Bulletin No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for inventory costs. The provisions of this statement are effective beginning after June 15, 2005, although early application is permitted. The Company does not expect that the impact of this statement will be material to the consolidated financial statements.

On December 16, 2004, the FASB issued its final standard on accounting for share-based payments (SBP), Financial Accounting Standards Board Statement No. 123R (FAS 123R) that requires companies to expense the value of employee stock options and similar awards. The statement was initially effective for public companies for interim and annual periods beginning after June 15, 2005, and applies to all outstanding and unvested SBP awards at a company's adoption date. The Securities and Exchange Commission recently delayed implementation to fiscal years beginning after June 15, 2005. Therefore, the Company intends to delay implementation of FAS 123R until January 1, 2006. The impact of this statement on the Company's results of operations (based on equity instruments outstanding at April 3, 2005) for the fiscal year ending December 31, 2006 is expected to be approximately ($0.02) per share.

On December 16, 2004, the FASB issued Financial Accounting Standards Board Statement No. 153, "Exchanges of Nonmonetary Assets, an amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions" (FAS 153). The amendments made by FAS 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have commercial substance. Previously, Opinion No. 29 required that the accounting for an exchange of a productive asset for a similar productive asset or an equivalent interest in the same or similar productive asset should be based on the recorded amount of the asset relinquished. The statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date of issuance. The provisions of this statement shall be applied prospectively. The Company does not expect the impact of this statement will be material to the consolidated financial statements.

In March 2005, the FASB issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations" (FIN 47). FIN 47 is an interpretation of FASB Statement No. 143, "Accounting for Asset Retirement Obligations" (FAS 143) and serves to clarify that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. FIN 47 also clarifies when an entity would have sufficient information to reasonably estimate such a liability. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company does not expect that the impact of this interpretation will be material to the consolidated financial statements.

3. Discontinued Operations

In September 1996, the Company divested its Municipal Water Group businesses, which included Henry Pratt, James Jones Company and Edward Barber and Company Ltd. Costs and expenses related to the Municipal Water Group for 2005 and 2004 primarily relate to legal and settlement costs associated with the James Jones Litigation.

In the fourth quarter of 2004 the Company decided to divest its interest in a minority owned subsidiary Jameco International, LLC (Jameco) that had been previously consolidated as a result of Financial Accounting Standards Board Interpretation No. 46, "Consolidation of Variable Interest Entities-Revised" (FIN 46R). Jameco was recorded in the North American segment. Management determined that Jameco did not have a long-term strategic fit with the Company. As a result, in the fourth quarter of 2004 the Company recorded an impairment charge net of tax of $739,000 to write down its investment to estimated fair value of $250,000. The Company finalized the divesture of its interest in Jameco in March 2005 and received $250,000 from the majority owner of Jameco. Jameco imports and sells vitreous china, imported faucets and faucet parts and imported bathroom accessories to the North American home improvement retail market.

Condensed operating statements and balance sheets for discontinued operations is summarized below:

	First Quarter Ended	
	April 3, 2005	March 28, 2004
	(in thousands)	
Net sales – Jameco International, LLC	$ —	$ 4,753
Cost and expenses		
Jameco International, LLC	—	(4,707)
Municipal Water Group	(64)	(37)
Income (loss) before income taxes	(64)	9
Income tax (expense) benefit	25	(3)
Income (loss) from discontinued operations, net of taxes	$ (39)	6

	April 3, 2005
	(in thousands)
Prepaid expenses and other assets	$ 710
Deferred income taxes	7,934
Assets of discontinued operations	$ 8,644
Accrued expenses and other liabilities	23,456
Liabilities of discontinued operations	$ 23,456

The assets and liabilities at April 3, 2005 primarily relate to the reserves for the James Jones Litigation.

4. Derivative Instruments

The Company uses foreign currency forward exchange contracts as a cash flow hedge to reduce the impact of currency fluctuations on certain anticipated intercompany purchase transactions that are expected to occur within the year and certain other foreign currency transactions. Related gains and losses are recognized in other income/expense when the contracts expire, which is 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. For the first quarter of 2005, the Company recorded approximately $52,000 in other comprehensive income for the change in the fair value of the contracts.

The Company occasionally 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 April 3, 2005 and March 28, 2004 the Company had no commodity contracts.

5. Restructuring

The Company continues to implement a plan to consolidate several of its manufacturing plants 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. In the first quarter of 2005, the Company recorded a pre-tax charge of approximately $774,000 compared to $1,177,000 in the first quarter of 2004. Pre-tax costs of $412,000 and $1,177,000 were recorded in costs of goods sold in the first quarter of 2005 and 2004, respectively. Costs incurred for the first quarters of 2005 and 2004 included accelerated depreciation for both the expected closure of a U.S. manufacturing plant and a reduction in the estimated useful lives of certain manufacturing equipment. Additionally, $362,000 was charged to restructuring and other charges in the first quarter of 2005. These costs represent severance related to a European restructuring including personnel reductions and the movement of manufacturing equipment to a lower cost location.

6. Earnings per Share

The following tables set forth the reconciliation of the calculation of earnings per share:

	For the First Quarter Ended April 3, 2005		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**
	(Amounts in thousands, except share and per share amounts)		
Basic EPS			
Income from continuing operations	**$ 12,397**	**32,407,884**	**$ .38**
Loss from discontinued operations	**(39)**		**—**
Net income	**$ 12,358**		**$ .38**
Effect of dilutive securities			
Common stock equivalents		**623,680**	
Diluted EPS			
Income from continuing operations	**$ 12,397**		**$ .37**
Loss from discontinued operations	**(39)**		**—**
Net income	**$ 12,358**	**33,031,564**	**$ .37**

	For the First Quarter Ended March 28, 2004		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(Amounts in thousands, except share and per share amounts)		
Basic EPS			
Income from continuing operations	$ 10,995	32,135,544	$ .34
Income from discontinued operations	6		—
Net income	$ 11,001		$ .34
Effect of dilutive securities			
Common stock equivalents		413,135	
Diluted EPS			
Income from continuing operations	$ 10,995		$ .34
Income from discontinued operations	6		—
Net income	$ 11,001	32,548,679	$ .34

7. Segment Information

Under the criteria set forth in Financial Accounting Standards Board No.131 “Disclosure about Segments of an Enterprise and Related Information”, the Company operates in three geographic segments: North America, Europe, and China. Each of these segments is managed separately and has separate financial results that are reviewed by the Company’s senior management. Sales by region are based upon location of the entity recording the sale. The accounting policies for each segment are the same as those described in the summary of significant accounting policies.

The following is a summary of our significant accounts and balances by segment, reconciled to our consolidated totals:

	North America	Europe	China	Corporate (*)	Consolidated
			(in thousands)		
Quarter ended April 3, 2005					
Net sales	**$ 147,477**	**$ 66,434**	**$ 5,116**	**$ —**	**$ 219,027**
Operating income (loss)	**18,446**	**7,493**	**545**	**(5,174)**	**21,310**
Identifiable assets	**534,473**	**303,199**	**81,209**	**—**	**918,881**
Long-lived assets	**72,638**	**49,288**	**26,085**	**—**	**148,011**
Intangibles	**31,151**	**9,262**	**2,644**	**—**	**43,057**
Capital expenditures	**2,288**	**1,350**	**964**	**—**	**4,602**
Depreciation and amortization	**3,328**	**2,326**	**1,344**	**—**	**6,998**
Quarter ended March 28, 2004					
Net sales	$ 120,982	$ 60,033	$ 4,993	$ —	$ 186,008
Operating income (loss)	16,434	7,445	(458)	(3,643)	19,778
Identifiable assets	518,051	271,041	68,278	—	857,370
Long-lived assets	71,792	46,751	24,944	—	143,487
Intangibles	17,513	140	3,000	—	20,653
Capital expenditures	1,792	1,713	1,440	—	4,945
Depreciation and amortization	4,093	2,258	722	—	7,073

The above operating segments are presented on a basis consistent with the presentation included in the Company's December 31, 2004 financial statements included in its Annual Report on Form 10-K.

*Corporate expenses are primarily for Sarbanes-Oxley compliance, compensation expense, professional fees, including legal and audit expenses and benefit administration costs. These costs are not allocated to the geographic segments as they are viewed as corporate functions that support all segments.

The North American segment consists of U.S. net sales of $136,605,000 and $112,725,000 and for the first quarter of 2005 and 2004, respectively. The North American segment also consists of U.S. long-lived assets of $67,784,000 and $67,027,000 at April 3, 2005 and March 28, 2004, respectively.

Intersegment sales in the quarter ended April 3, 2005 for North America, Europe and Asia were $ 1,109,000, $1,404,000 and $9,401,000, respectively. Intersegment sales in the quarter ended March 28, 2004 for North America, Europe and China were $917,000, $1,510,000 and $4,587,000, respectively.

8. Other Comprehensive Income (Loss)

Other comprehensive income (loss) consist of the following:

	Foreign Currency Translation	Pension Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
		(in thousands)		
Balance December 31, 2004	**$ 32,506**	**$ (5,849)**	**$ (39)**	**$ 26,618**
Change in period	**(6,857)**	**—**	**(28)**	**(6,885)**
Balance April 3, 2005	**$ 25,649**	**$ (5,849)**	**$ (67)**	**$ 19,733**
Balance December 31, 2003	$ 19,588	$ (5,829)	$ 46	$ 13,805
Change in period	(5,585)	—	(209)	(5,794)
Balance March 28, 2004	$ 14,003	$ (5,829)	$ (163)	$ 8,011

Accumulated other comprehensive income (loss) in the Consolidated Balance Sheets as of April 3, 2005 and March 28, 2004 consists of cumulative translation adjustments and changes in the fair value of certain financial instruments that qualify for hedge accounting as required by FAS 133. The Company's total comprehensive income was as follows:

	First Quarter Ended			
	April 3, 2005		March 28, 2004	
	(in thousands)			
Net income	**$**	**12,358**	$	11,001
Unrealized loss on derivative instruments		**(28)**		(209)
Foreign currency translation adjustments		**(6,857)**		(5,585)
Total comprehensive income	**$**	**5,473**	$	5,207

9. Acquisitions

On January 5, 2005, the Company acquired 100% of the outstanding stock of HF Scientific, Inc., (HF) located in Fort Myers, Florida for approximately $7,200,000 in cash plus $800,000 in assumed debt. The Company will obtain a third-party valuation to allocate the purchase price consistent with the guidelines of Financial Accounting Standards Board Statement No. 141, "Business Combinations" (FAS 141). The preliminary allocation for goodwill and intangible assets approximates $4,125,000 and $2,682,000, respectively. HF manufactures and distributes a line of instrumentation equipment, test kits and chemical reagents used for monitoring water quality in a variety of applications.

On January 4, 2005, the Company acquired substantially all of the assets of Sea Tech, Inc. (Sea Tech) located in Wilmington, North Carolina for approximately $10,100,000 in cash. The purchase agreement contains an earn-out provision to be calculated on a cumulative basis over a three-year period ending December 31, 2007. Payments under the agreement, if any, will not exceed $5,000,000. The Company will obtain a third-party valuation to allocate the purchase price consistent with the guidelines of FAS 141. The preliminary allocation for goodwill and intangible assets approximates $6,458,000 and $3,098,000, respectively. Sea Tech provides cost effective solutions for fluidic connection needs. Sea Tech offers a wide range of standard and custom quick connect fittings, valves and manifolds and pex tubing designed to address specific customer requirements.

The acquisitions above have been accounted for using the purchase method of accounting. The pro-forma results have not been displayed, as the results are not significant, either individually or aggregated.

10. Debt Issuance

On September 23, 2004, the Company entered into an unsecured revolving credit facility with a syndicate of banks (the Revolving Credit Facility). The Revolving Credit Facility provides for multi-currency unsecured borrowings and stand-by letters of credit of up to $300,000,000 and expires in September 2009. Borrowings outstanding under the Revolving Credit Facility bear interest at a fluctuating rate per annum for an applicable percentage equal to (i) in the case of Eurocurrency rate loans, the British Bankers Association LIBOR rate plus an applicable percentage, of up to 0.875% based on the Company's current consolidated leverage ratio and debt rating, or (ii) in the case of base rate loans and swing line loans, the higher of (a) the federal funds rate plus 0.5% and (b) the annual rate of interest announced by Bank of America, N.A. as its "prime rate." The average interest rate for borrowings under the revolving credit facility was approximately 2.76% for the quarter ended April 3, 2005. The Revolving Credit Facility replaced the unsecured revolving credit facility provided under the Revolving Credit Agreement dated February 28, 2002. The Revolving Credit Facility was used to pay off the debt that existed on the previous credit facility. 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 April 3, 2005, the Company was in compliance with all covenants related to the Revolving Credit Facility. The Company had $219,373,000 of unused and available credit under the Revolving Credit Facility at April 3, 2005. At April 3, 2005, $47,985,000 of debt was outstanding on the Revolving Credit Facility and recorded as long-term debt.

The Company has entered into an interest rate swap for a notional amount of €25,000,000 outstanding on the Company's Revolving Credit Facility. The Company swapped the variable rate from the Revolving Credit Facility, which is three month EURIBOR plus 0.7%, for a fixed rate of 2.3%. The term of the swap is two years. The Company has designated the swap as a hedging instrument using the cash flow method. The swap hedges the cash flows associated with interest payments on the first €25,000,000 of the Company's Revolving Credit Facility. The Company marks to market the changes in value of the swap through other comprehensive income. Any ineffectiveness has been recorded in income. For the first quarter of 2005, the Company recorded a change of $24,000 in other comprehensive income for the decrease in the fair value of the swap.

11. Contingencies and Environmental Remediation

There have been no material developments with respect to the Company's contingencies and environmental remediation proceedings during the quarter ended April 3, 2005.

12. Employee Benefit Plans

The Company sponsors funded and unfunded 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 Company uses a September 30 measurement date for its plans.

The components of net periodic benefit cost are as follows:

	First Quarter Ended April 3, 2005	First Quarter Ended March 28, 2004
	(in thousands)	
Service cost—benefits earned	**$ 715**	$ 618
Interest costs on benefits obligation	**838**	783
Estimated return on assets	**(790)**	(732)
Transitional asset amortization	**—**	(65)
Prior service cost amortization	**60**	57
Net loss amortization	**215**	196
Net periodic benefit cost	**$ 1,038**	$ 857

Cash flows:

The information related to the Company's pension funds cash flow is as follows:

	First Quarter Ended April 3, 2005	First Quarter Ended March 28, 2004
	(in thousands)	
Employer contributions	**$ 1,729**	$ 27

13. Subsequent Events

On May 4, 2005, the Company filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission. Securities to be registered will consist of up to $300,000,000 of an indeterminate amount of debt and/or equity securities. Funds from any offerings will be used to finance acquisitions and working capital, repay or refinance debt and for other general corporate purposes.

Item 2. Management’s Discussion And Analysis Of Financial Condition And Results Of Operations

Overview

The following discussion and analysis are provided to increase understanding of, and should be read in conjunction with, the accompanying unaudited consolidated financial statements and notes. In this quarterly report on Form 10-Q, references to “the Company”, “Watts”, “we”, “us” or “our” refer to Watts Water Technologies, Inc. and its consolidated subsidiaries.

We operate on a 52-week fiscal year ending on December 31. Any first quarter ended data contained in this Report on Form 10-Q reflects the results of operations for the 13-week period ended on the Sunday nearest March 31 of the respective year. There were four additional billing days in the first quarter ended April 3, 2005 than were in the first quarter ended March 28, 2004.

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. For more than 130 years, we have designed and manufactured products that promote the comfort and safety of people and the quality and conservation for water used in commercial, residential and light industrial applications. We earn revenue and income almost exclusively from the sale of our products. 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;
- 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;
- point-of-use water filtration and reverse osmosis systems for both commercial and residential applications;
- thermostatic mixing valves for tempering water in commercial and residential applications; and
- systems for under-floor radiant heat applications, and hydraulic pump groups for gas boiler manufacturers.

Our business is reported in three geographic segments, North America, Europe and China. We distribute our products through three primary distribution channels, wholesale, do-it-yourself (DIY) and Original Equipment Manufacturers (OEMs). Increases in Gross National Product (GNP) indicate a healthy economic environment, which we believe positively impacts our results of operations. An economic factor that has a direct effect on the demand for our products is the number of new housing construction starts and non-residential, or commercial, construction starts. Interest rates have an indirect effect on the demand for our products due to the effect such rates have on the number of new residential and commercial construction starts and remodeling projects. An additional factor that has had an effect on our sales is fluctuations in foreign currencies, as a portion of our sales and certain portions of our costs, assets and liabilities are denominated in currencies other than the U.S. dollar.

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

Products representing a majority of our sales are subject to regulatory standards and code enforcement, which typically require that these products meet stringent performance criteria. Together with our commissioned manufacturers’ representatives, we have consistently advocated the development and enforcement of such plumbing codes. We are focused on maintaining stringent quality control and testing procedures at each of our manufacturing facilities in order to manufacture products in compliance with code requirements and take advantage of the resulting demand for compliant products. We believe that product development, product testing capability and investment in plant and equipment is needed to manufacture products in compliance with code requirements, which represents a barrier to entry for competitors. We believe there is an increasing demand among consumers for products to ensure water quality, which creates growth opportunities for our products.

A risk we face is our ability to deal effectively with increases in raw material costs. We require substantial amounts of raw materials, including bronze, brass, cast iron, steel and plastic to produce our products and substantially all of the raw materials we require are purchased from outside sources. We have experienced increases in the costs of bronze, brass, cast iron, steel and plastic. If we are not able to reduce or eliminate the effect of these cost increases by reducing production costs or successfully implementing price increases, these increases in raw material costs could reduce our profit margins.

Another risk we face in all areas of our business is competition. We consider brand preference, engineering specifications, plumbing code requirements, price, technological expertise, delivery times and breadth of product offerings to be the primary competitive factors. As mentioned previously, we believe that product development, product testing capability and investment in plant and equipment is needed to manufacture products in compliance with code requirements, which represents a barrier to entry for competitors. We are committed to maintaining our capital equipment at a level consistent with current technologies, as we spent approximately $4,600,000 in the first quarter of 2005, and expect to invest a total of approximately $22,400,000 in 2005. We are also committed to expanding our manufacturing capacity in lower cost countries such as China, Tunisia and Bulgaria. These manufacturing plant relocations and consolidations are an important part of our ongoing commitment to reduce production costs.

Recent Developments

On May 4, 2005, we filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission. Securities to be registered will consist of up to $300,000,000 of an indeterminate amount of debt and/or equity securities. Funds from any offerings will be used to finance acquisitions and working capital, repay or refinance debt and for other general corporate purposes.

In March 2005, we sold our minority interest in Jameco International, LLC (Jameco) to the majority owner for $250,000 in cash, completing the divestiture of our interest in Jameco. In the fourth quarter of 2004, we recorded an impairment charge in discontinued operations to write-down the investment to estimated fair value.

Acquisitions

On January 5, 2005, a wholly owned subsidiary of the Company acquired 100% of the outstanding stock of HF Scientific, Inc., (HF) located in Fort Myers, Florida for approximately $7,200,000 in cash plus $800,000 in assumed debt. The Company will obtain a third-party valuation to allocate the purchase price consistent with the guidelines of Financial Accounting Standards Board Statement No. 141, “Business Combinations” (FAS 141). The preliminary allocation for goodwill and intangible assets approximates $4,125,000 and $2,682,000, respectively. HF manufactures and distributes a line of instrumentation equipment, test kits and chemical reagents used for monitoring water quality in a variety of applications.

On January 4, 2005, a wholly owned subsidiary of the Company acquired substantially all of the assets of Sea Tech, Inc. (Sea Tech) located in Wilmington, North Carolina for approximately $10,100,000 in cash. The Company will obtain a third-party valuation to allocate the purchase price consistent with the guidelines of FAS 141. The preliminary allocation for goodwill and intangible assets approximates $6,458,000 and $3,098,000, respectively. Sea Tech provides cost effective solutions for fluidic connection needs. Sea Tech offers a wide range of standard and custom quick connect fittings, valves and manifolds and pex tubing designed to address specific customer requirements.

On September 28, 2004 a wholly owned subsidiary of the Company completed the planned increase of its ownership in Watts Stern Rubinetti, S.r.l (Stern) from 51% to 85%. The price paid for this additional 34% was approximately $800,000. The Company has a call option to acquire the remaining 15% from the minority shareholders for approximately $400,000. The option became exercisable on January 1, 2005. The Company anticipates exercising this option in the second quarter of 2005.

On May 21, 2004, a wholly-owned subsidiary of the Company acquired 100% of the outstanding stock of McCoy Enterprises, Inc., which was subsequently renamed Orion Enterprises, Inc. (Orion), located in Kansas City, Kansas, for approximately $27,900,000 in cash. Orion distributes its products under the brand names of Orion, Flo Safe and Laboratory Enterprises. The Company contracted for a third-party valuation to allocate the purchase price consistent with the guidelines of FAS 141. The allocation to goodwill was approximately $18,100,000 and approximately $4,300,000 was allocated to intangible assets. The amount recorded as intangibles assets was primarily for trademarks that have indefinite lives. Orion’s product lines include a complete line of acid resistant waste disposal products, double containment piping systems, as well as a line of high purity pipes, fittings and faucets.

On April 16, 2004, a wholly-owned subsidiary of the Company acquired 90% of the stock of TEAM Precision Pipework, Ltd. (TEAM), located in Ammanford, West Wales, United Kingdom for approximately $17,200,000 in cash subject to final adjustments, if any, as stipulated in the purchase and sale agreement. The Company contracted for a third-party valuation to allocate the purchase price consistent with the guidelines of FAS 141. The allocation to goodwill was approximately $9,500,000 and approximately $9,500,000 was allocated to intangible assets. The amount recorded as intangible assets was primarily for the valuation of its customer base that is estimated to have a 12- year life. TEAM custom designs and manufactures manipulated pipe and hose tubing assemblies, which are utilized in the heating ventilation and air conditioning markets. TEAM is a supplier to major original equipment manufacturers of air conditioning systems and several of the major European automotive air conditioning manufacturers.

On March 29, 2004, a wholly-owned subsidiary of the Company acquired the 40% equity interest in Taizhou Shida Plumbing Manufacturing Co., Ltd. (Shida), that had been held by the Company's former joint venture partner for approximately $3,000,000 in cash and the payment of $3,500,000 in connection with a know-how transfer and non-compete agreement. As of December 31, 2004 the Company had paid $5,750,000 in cash. The Company now owns 100% of Shida. Prior to the acquisition the joint venture declared a dividend of $1,250,000 and based on the 40% ownership, a $500,000 cash dividend was paid to its joint venture partner. The Company contracted for a third-party valuation to allocate the purchase price consistent with the guidelines of FAS 141. The final allocation to goodwill was $2,374,000 and $1,126,000 was allocated to intangible assets. The amount recorded as intangible assets was primarily for the non-compete agreement that has a 3-year life. The Company had made prior investments in 2003 and 2002 totaling $8,000,000 in cash for its initial 60% interest. Shida is a manufacturer of a variety of plumbing products sold both into the Chinese domestic market and export markets.

On January 5, 2004, a wholly-owned subsidiary of the Company acquired substantially all of the assets of Flowmatic Systems, Inc. (Flowmatic), located in Dunnellon, Florida, for approximately $16,800,000 in cash. The Company contracted for a third-party valuation to allocate the purchase price consistent with the guidelines of FAS 141. The allocation to goodwill was approximately $5,300,000 and approximately $5,600,000 was allocated to intangible assets. The amount recorded as intangible assets was primarily for trademarks that have indefinite lives. Flowmatic designs and distributes a complete line of high quality reverse osmosis components and filtration equipment. Their product line includes stainless steel and plastic housings, filter cartridges, storage tanks, control valves, as well as complete reverse osmosis systems for residential and commercial applications.

The acquisitions above have been accounted for utilizing the purchase method of accounting. The pro-forma results have not been displayed, as the results are not significant, either individually or aggregated, to our consolidated financial position or results of operations.

Results of Operations

First Quarter Ended April 3, 2005 Compared to First Quarter Ended March 28, 2004

Net Sales. Our business is reported in three geographic segments: North America, Europe and China. Our net sales in each of these segments for each of the first quarters ended 2005 and 2004 were as follows:

	First Quarter Ended April 3, 2005		First Quarter Ended March 28, 2004			% Change to Consolidated
	Net Sales	% Sales	Net Sales	% Sales	Change	Net Sales
			(in thousands)			
North America	$ 147,477	67.3%	$ 120,982	65.0%	$ 26,495	14.2%
Europe	66,434	30.3	60,033	32.3	6,401	3.4
China	5,116	2.4	4,993	2.7	123	.1
Total	$ 219,027	100%	$ 186,008	100%	$ 33,019	17.7%

The increase in net sales is attributable to the following:

					Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
	North America	Europe	China	Total	North America	Europe	China	Total	North America	Europe	China
					(in thousands)						
Internal growth	$ 19,245	$ 736	$ 123	$ 20,104	10.3%	.4%	.1%	10.8%	15.9%	1.2%	2.5%
Foreign exchange	750	2,862	—	3,612	.4	1.5	—	1.9	.6	4.8	—
Acquisitions	6,500	2,803	—	9,303	3.5	1.5	—	5.0	5.4	4.7	—
Total	$ 26,495	$ 6,401	$ 123	$ 33,019	14.2%	3.4%	.1%	17.7%	21.9%	10.7%	2.5%

There were four additional billing days in the first quarter of 2005 as compared to the first quarter of 2004.

The internal growth in net sales in North America is due to increased price and unit sales in certain product lines into both the wholesale and DIY markets. Our wholesale market in the first quarter of 2005, excluding the sales from the acquisitions of HF, Sea Tech and Orion, grew by 14.3% compared to the first quarter of 2004, primarily due to increased sales of backflow preventer units, as well as in our plumbing and under-floor radiant heating product lines. Our sales into the North American DIY market in the first quarter of 2005 increased by 22.5% compared to the first quarter of 2004 primarily due to increased sales of our water connector products.

The increase in net sales due to foreign exchange in North America is due to the Canadian dollar appreciating against the U.S. dollar. We cannot predict whether the Canadian dollar will continue to appreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net sales.

The acquired growth in net sales in North America is due to the inclusion of net sales of HF, acquired on January 5, 2005, Sea Tech, acquired on January 4, 2005, and Orion, acquired on May 21, 2004.

The internal sales growth in Europe results from increased unit sales into the wholesale market being offset to some extent by decreased sales into the OEM market.

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

The acquired growth in net sales in Europe is due to the inclusion of the net sales of TEAM, acquired in April 2004.

External China sales were flat primarily because some previous third party commodity product sales shifted to intercompany sales to North America.

Gross Profit. Gross profit for the first quarter of 2005 increased $12,466,000, or 19.2%, compared to the first quarter of 2004. The increase in gross profit is attributable to the following:

	(in thousands)	% Change
Internal growth	$ 6,035	9.3%
Foreign exchange	1,250	1.9
Acquisitions	4,416	6.8
Restructuring	765	1.2
Total	$ 12,466	19.2%

The internal growth in gross profit is primarily due to the North American segment, which increased internal gross profits by $4,732,000. This increase is primarily due to increased sales of products to wholesalers. The increase in gross profit from foreign exchange is primarily due to the appreciation of the euro and Canadian dollar against the U.S. dollar. The increase in gross profit from acquisitions is due to the inclusion of gross profit from HF, Sea Tech, Orion and TEAM.

The increase in gross profit includes decreased manufacturing restructuring and other costs. In the first quarter of 2005 we charged $412,000 to cost of sales as compared to $1,177,000 in the first quarter of 2004 for accelerated depreciation and other costs.

Selling, General and Administrative Expenses. Selling, General and Administrative, or SG&A expenses, for the first quarter of 2005 increased $10,572,000, or 23.4%, compared to the first quarter of 2004. The increase in SG&A expenses is attributable to the following:

	(in thousands)	% Change
Internal growth	$ 5,391	11.9%
Foreign exchange	768	1.7
Acquisitions	2,704	6.0
Other	1,709	3.8
Total	$ 10,572	23.4%

The internal increase in SG&A expenses is primarily due to increased variable selling expenses due to increased sales volumes and incremental costs incurred for compliance with the Sarbanes-Oxley Act (SOX). The increase in SG&A expenses from foreign exchange is primarily due to the appreciation of the euro and Canadian dollar against the U.S. dollar. The increase in SG&A expenses from acquisitions is due to the inclusion of HF, Sea Tech, Orion and TEAM. Other includes costs of $709,000 for an earn-out arrangement from a prior year acquisition that is being accounted for as compensation expense and $1,000,000 in reserve reductions recorded in the first quarter of 2004 related to a favorable ruling in a legal matter.

Operating Income. Operating income by geographic segment for each of the first quarters ended 2005 and 2004 were as follows:

	First Quarter Ended			% Change to Consolidated Operating Income
	April 3, 2005	March 28, 2004	Change	
	(in thousands)			
North America	$ 18,446	$ 16,434	$ 2,012	10.2%
Europe	7,493	7,445	48	.2
China	545	(458)	1,003	5.1
Corporate	(5,174)	(3,643)	(1,531)	(7.7)
Total	$ 21,310	$ 19,778	$ 1,532	7.8%

The increase in operating income is attributable to the following:

						Change As a % of Consolidated Operating Income					Change As a % of Segment Operating Income			
	North America	Europe	China	Corp.	Total	North America	Europe	China	Corp.	Total	North America	Europe	China	Corp.
								(in thousands)						
Internal growth	$ 963	$ (791)	$ 1,003	$ (531)	$ 644	4.9%	(4.0)%	5.1%	(2.7)%	3.3%	5.9%	(10.6)%	219.0%	(14.6)%
Foreign exchange	155	327	—	—	482	.8	1.6	—	—	2.4	.9	4.4	—	—
Acquisitions	824	888	—	—	1,712	4.2	4.5	—	—	8.7	5.0	11.9	—	—
Restructuring	779	(376)	—	—	403	3.9	(1.9)	—	—	2.0	4.7	(5.1)	—	—
Other	(709)	—	—	(1,000)	(1,709)	(3.6)	—	—	(5.0)	(8.6)	(4.3)	—	—	(27.4)
Total	$ 2,012	$ 48	$ 1,003	$ (1,531)	$ 1,532	10.2%	.2%	5.1%	(7.7)%	7.8%	12.2%	.6%	219.0%	(42.0)%

The internal growth in North America is primarily due to our increased gross profit in the wholesale market, benefits resulting from our completed manufacturing restructuring projects and product outsourcing, partially offset by increased net SG&A expense. In the first quarter of 2005, we experienced raw material cost increases in plastics purchases due to increases in oil costs, which have yet to be recovered through price increases. In 2004, we experienced raw material cost increases for a majority of the commodities that we purchased, which we were able to recover by implementing price increases on some of our products. In the first quarter of 2005, we recorded $398,000 for costs associated with our manufacturing restructuring plan compared to $1,177,000 for the same period in 2004. We expect to record an additional $375,000 in the second quarter of 2005 for approved accelerated depreciation costs associated with the North American manufacturing restructuring plan. The acquired growth is due to the inclusion of operating income from HF, Sea Tech and Orion. Other represents costs accrued for an earn-out arrangement that is being accounted for as compensation expense.

Internal profits lagged in Europe primarily due to weaker OEM product mix and increased SG&A expense. In the first quarter of 2005, we recorded $376,000 of costs associated with our manufacturing restructuring plan compared to no costs in 2004. We expect to record approximately $765,000 during the remainder of 2005 for estimated costs associated with the European manufacturing restructuring plan. The increase in operating income from foreign exchange is primarily due to the appreciation of the euro against the U.S. dollar. We cannot predict whether the euro will continue to appreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our operating income. The acquired growth in Europe is due to the inclusion of the operating income from TEAM.

The increase in internal growth in China of $1,003,000 is primarily attributable to improved manufacturing efficiencies associated with our wholly owned manufacturing plant in Tianjin and reduced SG&A expense.

The decrease in internal operating income in Corporate of $531,000 is primarily attributable to incremental costs incurred for compliance with SOX. Other includes a reserve reduction in the first quarter of 2004 due to a favorable ruling in a legal matter.

Interest Expense. Interest expense decreased $23,000, or 0.9%, for the first quarter of 2005 compared to the first quarter of 2004, primarily due to reduced debt levels and a slight decrease in the average rates charged on the Revolving Credit Facility.

We have entered into an interest rate swap for a notional amount of €25,000,000 outstanding on our prior revolving credit facility. We swapped the variable rate from the Revolving Credit Facility, which is three month EURIBOR plus 0.7%, for a fixed rate of 2.3%. The impact of the swap was immaterial to the overall interest expense.

Income Taxes. Our effective rate for continuing operations decreased to 35.2% in the first quarter of 2005, from 37.3% for the first quarter of 2004. The decrease is primarily due to a lower effective tax rate in Europe resulting from lower earnings in Germany and Italy. In addition, our Chinese entities generated profits taxed at relatively lower rates in the first quarter of 2005 versus losses in 2004 for which minimal benefit was allowed.

Income From Continuing Operations. Income from continuing operations for the first quarter 2005 increased $1,402,000, or 12.8%, to $12,397,000 or $0.37 per common share, from $10,995,000 or $0.34 per common share, for the first quarter of 2004, in each case, on a diluted basis. The appreciation of the euro and Canadian dollar against the U.S. dollar resulted in a positive impact on income from continuing operations of $0.01 per share for the first quarter of 2005 compared to the comparable period last year. We cannot predict whether the euro or Canadian dollar will continue to appreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net income. Income from continuing operations for the first quarter of 2005 and 2004 include net costs incurred for our restructuring plan of $496,000 or ($0.02) per share and $724,000 or ($0.02) per share, respectively.

Loss From Discontinued Operations. We recorded a charge net of tax to discontinued operations for the first quarter of 2005 of $39,000, or $0.00 per common share and income of $6,000, or $0.00 per common share, for the first quarter of 2004, in each case, on a diluted basis. These charges are primarily attributable to legal fees associated with the James Jones litigation, as described in Part I, Item 1. "Business-Product Liability, Environmental and Other Litigation Matters" in our Annual Report on Form 10-K for the year ended December 31, 2004.

Liquidity and Capital Resources

We used $8,189,000 of cash to fund continuing operations for the first quarter of 2005. We experienced an increase in accounts receivable in North America and Europe totaling approximately $9,000,000. The North America increase is primarily due to increased sales volume and timing of certain cash receipts from certain large customers. The European increase is primarily due to increased sales volume. Additionally, we experienced an increase in inventories in North America and Europe totaling approximately $10,900,000. The increase in inventory in Europe is primarily due to increased finished goods to support the delivery requirements of OEM customers in Europe. North American inventories increased due to expected seasonal upswing in product demand and for new product introductions. In addition, in the first quarter of 2005 cash was used to pay 2004 accrued incentives.

We generated $4,460,000 of net cash from investing activities for the first quarter of 2005 primarily from the sale of investment securities. We invested $4,602,000 in capital equipment. Capital expenditures were primarily for manufacturing machinery and equipment as part of our ongoing commitment to improve our manufacturing capabilities. We expect to invest approximately $22,400,000 in capital equipment in 2005. In January 2005, we paid approximately $17,300,000 to acquire HF and Sea Tech.

We used $1,181,000 of net cash from financing activities primarily to pay down debt acquired from HF and to fund higher dividend payments, offset by stock option proceeds.

Our revolving credit facility with a syndicate of banks (the Revolving Credit Facility) provides for multi-currency unsecured borrowings and stand-by letters of credit of up to $300,000,000 and matures in September 2009. The Revolving Credit Facility is being used to support our acquisition program, working capital requirements and for general corporate purposes.

Outstanding indebtedness under the Revolving Credit Facility bears interest at a rate determined by the type of loan plus an applicable margin determined by the Company's debt rating, depending on the applicable base rate and our bond rating. The average interest rate for borrowings under the Revolving Credit Facility was approximately 2.76% for the quarter ended April 3, 2005. We had $219,373,000 of unused and potentially available revolving credit at April 3, 2005. 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. At April 3, 2005, we were in compliance with all covenants related to the Revolving Credit Facility.

We have entered into an interest rate swap for a notional amount of €25,000,000 outstanding under our revolving credit facility. We swapped the variable rate from the revolving credit facility that is three month EURIBOR plus 0.7% for a fixed rate of 2.3%. The term of the swap is two years. We have designated the swap as a hedging instrument using the cash flow method. The swap hedges the cash flows associated with interest payments on the first €25,000,000 of our Revolving Credit Facility. We mark to market the changes in value of the swap through other comprehensive income. Any ineffectiveness has been recorded in income. In the first quarter of 2005, we recorded a change of $24,000 in other comprehensive income for the decrease in the fair value of the swap.

We generated $630,000 of net cash from discontinued operations. During the first quarter of 2005, we received approximately $500,000 in cash as an indemnification payment for settlement costs we incurred in the James Jones case. This cash has been recorded as a liability at April 3, 2005 because of the possibility that we might have to reimburse the insurance company if it is ultimately successful with a future appeal. We also received approximately $2,100,000 in cash for reimbursement of defense costs related to the James Jones case. During the first quarter of 2005, we paid approximately $701,000 for defense costs and approximately $511,000 for indemnity costs we incurred in the James Jones case.

Working capital (defined as current assets less current liabilities) as of April 3, 2005 was $292,953,000 compared to $300,506,000 as of December 31, 2004. This decrease is primarily due to a reduction in investment securities offset by an increase in inventories and accounts receivable. The ratio of current assets to current liabilities was 2.5 to 1 as of April 3, 2005 and as of December 31, 2004. Cash and cash equivalents were $61,532,000 as of April 3, 2005 compared to $65,913,000 as of December 31, 2004. This decrease in cash is due to increased working capital requirements, capital expenditures, as well as cash paid for acquisitions offset by the sale of investment securities.

We anticipate that available funds from current operations, existing cash and other sources of liquidity will be sufficient to meet current operating requirements and anticipated capital expenditures for at least the next 12 months. However, we may have to consider external sources of financing for any large future acquisitions.

Our long-term contractual obligations as of April 3, 2005 are presented in the following table:

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
			(in thousands)		
Long-term debt obligations, including current maturities (a)	$ 184,525	$ 5,542	$ 4,698	$ 48,732	$ 125,553
Operating lease obligations	19,909	2,575	5,716	4,274	7,344
Capital lease obligations (a)	1,196	484	654	58	—
Earn-out payment (b)	7,600	7,600	—	—	—
Other (c)	9,171	9,064	107	—	—
Total	$ 222,401	$ 25,265	$ 11,175	$ 53,064	$ 132,897

(a) as recognized in the consolidated balance sheet
(b) includes $6,359,000 recognized in the consolidated balance sheet
(c) includes commodity and capital expenditure commitments at April 3, 2005

We maintain letters of credit that guarantee our performance or payment to third parties in accordance with specified terms and conditions. Amounts outstanding were approximately $46,658,000 as of April 3, 2005 and $42,570,000 as of December 31, 2004. Our letters of credit are primarily associated with insurance coverage and to a lesser extent foreign purchases and generally expire within one year of issuance. The increase is primarily associated with increased foreign purchases. These instruments may exist or expire without being drawn down, therefore they do not necessarily represent future cash flow obligations.

We own a 20% interest in Plumworld.co.uk Ltd, a variable interest entity. Plumbworld is primarily an e-business that sells bathroom and sanitary appliances, as well as, plumbing and heating products, tools and plumbing consumables. Its annualized sales are approximately $11,000,000. We have a nominal investment of approximately $500 in Plumbworld and maintain a loan receivable in the amount of approximately $876,000 with Plumbworld. We continue to account for our investment in Plumbworld using the equity method.

Application of Critical Accounting Policies and Key Estimates

The preparation of our consolidated financial statements in accordance with U.S. GAAP requires management 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 consolidated 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 assumptions on historical experience and on other estimates that we believe are reasonable under the circumstances. Actual results could differ significantly from these estimates. There were no changes in accounting policies or significant changes in accounting estimates during first quarter of 2005.

We periodically discuss the development, selection and disclosure of the estimates with the Audit Committee. Management believes the following critical accounting policies reflect its' more significant estimates and assumptions.

Revenue recognition

We recognize revenue when all of the following criteria are met: (1) we have entered into a binding agreement, (2) the product has shipped and title has passed, (3) the sales price to the customer is fixed or is determinable and (4) collectibility is reasonably assured. We recognize revenue based upon a determination that all criteria for revenue recognition have been met, which, based on the majority of our shipping terms, is considered to have occurred upon shipment of the finished product. Some shipping terms require the goods to be received by the customer before title passes. In those instances, revenues are not recognized until the customer has received the goods. We record estimated reductions to revenue for customer returns and allowances and for customer programs. Provisions for returns and allowances are made at the time of sale, derived from historical trends and form a portion of the allowance for doubtful accounts. Customer programs, which are primarily annual volume incentive plans, allow customers to earn credit for attaining agreed upon purchase targets from us. We record customer programs as an adjustment to net sales.

Allowance for doubtful accounts

The allowance for doubtful accounts is established to represent our best estimate of the net realizable value of the outstanding accounts receivable. The development of our allowance for doubtful accounts varies by region but in general is based on a review of past due amounts, historical write-off experience, as well as aging trends affecting specific accounts and general operational factors affecting all accounts. In North America, management specifically analyzes individual accounts receivable and establishes specific reserves against financially troubled customers. In addition, factors are developed utilizing historical trends in bad debts, returns and allowances. The ratio of these factors to sales on a rolling twelve-month basis is applied to total outstanding receivables (net of accounts specifically identified) to establish a reserve. In Europe, management develops their bad debt allowance through an aging analysis of all their accounts, with analysis on the aging of specific delinquent accounts. In China, where payment terms are generally extended, we reserve all accounts receivable in excess of one year from the invoice date.

We uniformly consider current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We also aggressively monitor the credit worthiness of our largest customers, and periodically review customer credit limits to reduce risk. If circumstances relating to specific customers change or unanticipated changes occur in the general business environment, our estimates of the recoverability of receivables could be further adjusted.

Inventory valuation

Inventories are stated at the lower of cost or market with costs generally determined on a first-in first-out basis. We utilize both specific product identification and historical product demand as the basis for determining our excess or obsolete inventory reserve. We identify all inventories that exceed a range of one to three years in sales. This is determined by comparing the current inventory balance against unit sales for the trailing twelve months. New products added to inventory within the past twelve months are excluded from this analysis. A portion of our products contain recoverable materials, therefore the excess and obsolete reserve is established net of any recoverable amounts. 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.

In certain countries, additional inventory reserves are maintained for potential losses experienced in the manufacturing process. The reserve is established based on the prior year's inventory losses adjusted for any change in the gross inventory balance.

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. Goodwill and intangible assets with indefinite lives are tested annually for impairment in accordance with the provisions of FAS 142. We use judgment in assessing whether assets may have become impaired between annual impairment tests. We perform our annual test for goodwill impairment as of the last day of our fiscal October, which for 2005 will be as of October 30.

Intangible assets such as purchased technology are generally recorded in connection with a business acquisition. Generally 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.

It has been three years since adoption, and for all years our valuations have been greater than the carrying value of our goodwill and intangibles. While we believe that our estimates of future cash flows are reasonable, different assumptions regarding such factors as future sales volume, selling price changes, material cost changes, cost savings programs and capital expenditures could significantly affect our valuations. Other changes that may affect our valuations include, but are not limited to, product acceptances and regulatory approval. 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. 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 and financial position.

Product liability and workers compensation costs

Because of retention requirements associated with our insurance policies, we are generally self-insured for potential product liability claims and for workers' compensation costs associated with workplace accidents. For product liability cases in the U.S., management estimates expected settlement costs by utilizing stop loss reports provided by our third party administrators as well as developing internal historical trend factors based on our specific claims experience. Management employs internal trend factors to determine our product liability reserve because we believe they more accurately reflect final expected settlement costs. In other countries, we maintain insurance coverage with relatively high deductible payments, as product liability claims tend to be smaller than those experienced in the U.S. Changes in the nature of claims or the actual settlement amounts could affect the adequacy of this estimate and require changes to the provisions.

Workers compensation liabilities in the U.S. are recognized for claims incurred (including claims incurred but not reported) and for changes in the status of individual case reserves. At the time a workers' compensation claim is filed, a liability is estimated to settle the claim. The liability for workers' compensation claims is determined based on management's estimates of the nature and severity of the claims and based on analysis provided by third party administrators and by various state statutes and reserve requirements. We have developed our own trend factors based on our specific claims experience. In other countries where workers compensation costs are applicable, we maintain insurance coverage with limited deductible payments. Because the liability is an estimate, the ultimate liability may be more or less than reported.

We maintain excess liability insurance with outside insurance carriers to minimize our risks related to catastrophic claims in excess of all self-insured positions. Any material change in the aforementioned factors could have an adverse impact on our operating results.

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 in our Annual Report on Form 10-K for the year ended December 31, 2004. As required by Financial Accounting Standards Board Statement No. 5 "Accounting for Contingencies" (FAS 5), 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 insurance proceeds. Estimates of potential outcomes of these contingencies are developed in consultation with outside counsel. While this assessment is based upon all available information, litigation is inherently uncertain and the actual liability to fully resolve this litigation cannot be predicted with any assurance of accuracy. Final settlement of these matters could possibly result in significant effects on our results of operations, cash flows and financial position.

Pension benefits

We account for our pension plans in accordance with Financial Accounting Standards Board Statement No. 87 "Employers Accounting for Pensions" (FAS 87). In applying FAS 87, assumptions are made regarding the valuation of benefit obligations and the performance of plan assets. The primary assumptions are as follows:

- Weighted average discount rate—this rate is used to estimate the current value of future benefits. This rate is adjusted based on movement in long-term interest rates.

- Expected long-term rate of return on assets—this rate is used to estimate future growth in investments and investment earnings. The expected return is based upon a combination of historical market performance and anticipated future returns for a portfolio reflecting the mix of equity, debt and other investments indicative of our plan assets.

- Rates of increase in compensation levels—this rate is used to estimate projected annual pay increases, which are used to determine the wage base used to project employees' pension benefits at retirement.

We determine these assumptions based on consultation with outside actuaries and investment advisors. Any variance in the above assumptions could have a significant impact on future recognized pension costs, assets and liabilities.

Income taxes

We estimate and use our expected annual effective income tax rates to accrue income taxes. Effective tax rates are determined based on budgeted earnings before taxes including our best estimate of permanent items that will impact the effective rate for the year. Management periodically reviews these rates with outside tax advisors and changes are made if material discrepancies from expectations are identified.

We recognize deferred taxes for the expected future consequences of events that have been reflected in the consolidated financial statements in accordance with the rules of Financial Accounting Standards Board Statement No. 109 "Accounting for Income Taxes" (FAS 109). Under FAS 109, deferred tax assets and liabilities 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. We consider estimated future taxable income and ongoing prudent tax planning strategies in assessing the need for a valuation allowance.

Certain Factors Affecting Future Results

This report includes statements which are not historical facts and are considered forward looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect Watts Water Technologies, Inc.'s current views about future results of operations and other forward-looking information. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. You should not rely on forward-looking statements because Watts' actual results may differ materially from those indicated by these forward-looking statements as a result of a number of important factors. These factors include, but are not limited to, the following: shortages in and pricing of raw materials and supplies including recent cost increases by suppliers of raw materials and our ability to pass these costs on to customers, loss of market share through competition, introduction of competing products by other companies, pressure on prices from competitors, suppliers, and/or customers, diversion of management's attention and costs associated with efforts to comply with Section 404 of the Sarbanes-Oxley Act of 2002, the identification and disclosure of material weaknesses in our internal controls over financial reporting, failure to expand our markets through acquisitions, failure or delay in developing new products, lack of acceptance of new products, failure to manufacture products that meet required performance and safety standards, foreign exchange rate fluctuations, cyclicality of industries, such as plumbing and heating wholesalers and home improvement retailers, in which the Company markets certain of its products, economic factors, such as the levels of housing starts and remodeling, impacting the markets where the Company's products are sold, manufactured, or marketed, environmental compliance costs, product liability risks, the results and timing of the Company's manufacturing restructuring plan, changes in the status of current litigation, including the James Jones case, and other risks and uncertainties discussed under the heading "Certain Factors Affecting Future Results" in the Watts Water Technologies, Inc. Annual Report on Form 10-K for the year ended December 31, 2004 filed with the Securities Exchange Commission and other reports Watts files from time to time with the Securities and Exchange Commission.

Item 3. 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 costs 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 year and certain open foreign currency denominated commitments to sell products to third parties. For the first quarter ended April 3, 2005, we recorded $52,000 in other comprehensive income for the change in the fair value of such contracts in our Canadian operation.

We have historically had a very low exposure on the cost of our debt 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 Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004.

We purchase significant amounts of bronze ingot, brass rod, cast iron, steel and plastic, 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 the first quarter ended April 3, 2005.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as of the end of the period covered by 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 the disclosure controls and procedures. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily was required to apply its judgment in evaluating and implementing possible controls and procedures. The effectiveness of our disclosure controls and procedures is necessarily limited by the staff and other resources available to us and, although we have designed our disclosure controls and procedures to address the geographic diversity of our operations, this diversity inherently may limit the effectiveness of those controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective, in that they provide reasonable assurance 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. There was no change in our internal control over financial reporting that occurred during the quarter covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. In connection with these rules, we will 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.

Part II – OTHER INFORMATION

Item l. Legal Proceedings

During the period covered by this quarterly report on Form 10-Q, there were no material developments with respect to our legal proceedings described in our annual report on form 10-K for the year ended December 31, 2004.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Quarterly Report on Form 10-Q and such Exhibit Index is incorporated herein by reference.

SIGNATURES

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

WATTS WATER TECHNOLOGIES, INC.

Date: May 11, 2005

By: /s/ Patrick S. O'Keefe
Patrick S. O'Keefe
Chief Executive Officer

Date: May 11, 2005

By: /s/ William C. McCartney
William C. McCartney
Chief Financial Officer and Treasurer

EXHIBIT INDEX

Listed and indexed below are all Exhibits filed as part of this report.

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as amended (1)
3.2	Amended and Restated By-Laws, as amended (1)
11	Statement Regarding Computation of Earnings per Common Share (2)
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Principal Financial Officer pursuant Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350.
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350.

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(1) Incorporated by reference to the Registrant's Registration Statement on Form S-3 (No. 333-105989) filed with the Securities and Exchange Commission on June 10, 2003.

(2) Incorporated by reference to Note 6 to the Notes to Consolidated Financial Statements included in this Report.

Exhibit 31.1

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

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

1. I have reviewed this quarterly report on Form 10-Q of Watts Water Technologies, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2005

/s/ Patrick S. O'Keefe
Patrick S. O'Keefe
Chief Executive Officer

Exhibit 31.2

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

I, William C. McCartney, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Watts Water Technologies, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2005

/s/ William C. McCartney
William C. McCartney
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Watts Water Technologies, Inc. (the "Company") hereby certifies that the Company's quarterly report on Form 10-Q to which this certification is attached (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 (the "Exchange Act"), 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 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: May 11, 2005

/s/ Patrick S. O'Keefe
Patrick S. O'Keefe
Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned officer of Watts Water Technologies, Inc. (the "Company") hereby certifies that the Company's quarterly report on Form 10-Q to which this certification is attached (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 (the "Exchange Act"), 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 and Item 601(b)(32) of Regulation S-K ("Item 601(b)(32)") promulgated under the Securities Act of 1933, as amended (the "Securities Act"), and the Exchange Act. In accordance with clause (ii) of Item 601(b)(32), this certification (A) shall not be deemed "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and (B) shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: May 11, 2005

/s/ William C. McCartney
William C. McCartney
Chief Financial Officer
