

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

Or

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

Commission file number 001-11499

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

04-2916536
(I.R.S. Employer
Identification No.)

815 Chestnut Street, North Andover, MA
(Address of Principal Executive Offices)

01845
(Zip Code)

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

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

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

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

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

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

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

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(Do not check if a smaller reporting company)

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

As of June 29, 2007, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$1,170,291,367 based on the closing sale price as reported on the New York Stock Exchange.

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

Class	Outstanding at February 22, 2008
Class A Common Stock, \$0.10 par value per share	29,272,927 shares
Class B Common Stock, \$0.10 par value per share	7,293,880 shares

DOCUMENTS INCOPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on May 14, 2008, are incorporated by reference into Part III of this Annual Report on Form 10-K.

PART I

Item 1. BUSINESS.

This annual report on Form 10-K contains statements which are not historical facts and are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements contain projections of our future results of operations or our financial position or state other forward-looking information. In some cases you can identify these statements by forward-looking words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "should," "will" and "would" or similar words. You should not rely on forward-looking statements, because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Some of the factors that might cause these differences are described under Item 1A—"Risk Factors." You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and, except as required by law, we undertake no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

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

Overview

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

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

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

We intend to continue to generate growth by targeting selected acquisitions, both in our core markets as well as new complementary markets. We have completed 31 acquisitions since divesting our industrial and oil and gas business in 1999, including one acquisition in 2007 and five acquisitions in 2006. Our acquisition strategy focuses on businesses that manufacture preferred brand name products that address our themes of water quality, water safety, water conservation, water flow control and related complementary markets. We target businesses that will provide us with one or more of the following: an entry into new markets, an increase in shelf space with existing customers, strong brand names, a new or improved technology or an expansion of the breadth of our Water by Watts offering.

We are committed to reducing our manufacturing costs through a combination of expanding manufacturing in lower-cost countries and consolidating our diverse manufacturing operations in North America and Europe. We have acquired a number of manufacturing facilities in lower-cost regions such as China, Bulgaria and Tunisia. In 2007, we announced a global restructuring plan to reduce our manufacturing footprint in order to reduce our costs and to realize additional operating efficiencies.

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

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

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

Recent Acquisitions

On November 9, 2007, we acquired the assets and business of Topway Global Inc. (Topway) located in Brea, California for approximately \$18.4 million, of which \$0.3 million of transaction costs remain to be paid. The preliminary allocations for goodwill and intangible assets are approximately \$7.6 million and \$8.2 million, respectively. The amount recorded as intangible assets is primarily for customer relationships with an estimated useful life of 10 years and trade names with indefinite lives. Topway manufactures a wide variety of water softeners, point of entry filter units, and point of use drinking water systems for residential, commercial and industrial applications. The purchase price allocation for Topway is preliminary pending the final determination of the fair values of certain assumed assets and liabilities.

On August 14, 2006, we acquired 100% of the outstanding stock of Black Teknigas, Limited (Teknigas) located in St. Neots, United Kingdom for approximately \$8.7 million, which is net of cash acquired of approximately \$0.3 million. The allocations for goodwill and intangible assets are approximately \$3.6 million and \$4.5 million, respectively. The amount recorded as intangible assets is primarily for technology and customer relationships that have estimated useful lives ranging from 6 to 9 years and trade names with indefinite lives. Teknigas designs, develops and manufactures a range of gas control products and systems for combustion, industrial, medical, laboratory and specialty gas.

On June 7, 2006, we acquired 100% of the outstanding stock of Kim Olofsson Safe Corporation AB (KimSafe) located in Almhult, Sweden for approximately \$5.8 million, which is net of cash acquired of approximately \$2.9 million. The allocations for goodwill and intangible assets are approximately \$1.2 million and \$4.1 million, respectively. The amount recorded as intangible assets is primarily for customer relationships that have estimated useful lives of 5 years and trade names with indefinite lives. KimSafe manufactures electronic controls for heat pump, solar and pellet heaters, which provide the ability to heat water using renewable energy.

On June 2, 2006, we acquired the assets and business of Calflex Manufacturing, Inc. (Calflex) located in Vernon, California and the stock of Ningbo Best Metal & Plastic Manufacturing, Ltd (Ningbo) located in Ningbo, China for an aggregate of approximately \$6.3 million. The allocation for intangible assets is approximately \$2.1 million. The amount recorded as intangible assets is primarily for customer relationships that have estimated useful lives of 12 years and trade names with indefinite lives. Calflex and Ningbo distribute and manufacture water connectors.

On May 19, 2006, we acquired 100% of the outstanding stock of ATS Expansion Group (ATS) located in Sorgues, Grenoble and Hautvillers, France for approximately \$62.1 million, which is net of cash acquired of approximately \$5.7 million plus assumed debt of approximately \$14.1 million. The allocations for goodwill and intangible assets are approximately \$33.6 million and \$25.6 million, respectively. The amount recorded as intangible assets is primarily for customer relationships with estimated useful lives of 6 years, patents with estimated useful lives from 6 to 12 years and trade names with indefinite lives. ATS' products include a broad range of fittings, valves and manifolds for water, gas and heating applications and stainless steel flexible hoses.

On April 26, 2006, we acquired the assets and business of Changsha Valve Works (Changsha) located in Changsha, China for approximately \$9.2 million. The allocations for goodwill and intangible assets are approximately \$5.7 million and \$3.7 million, respectively. The amount recorded as intangible assets is primarily for non-compete agreements that have estimated useful lives of 10 years and customer order backlog with an estimated useful life of 1 year. Changsha is a leading manufacturer of large diameter hydraulic-actuated butterfly valves for thermo-power and hydro-power plants, water distribution projects and water works projects in China.

Products

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

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

Customers and Markets

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

Wholesalers. Approximately 65% of our sales in both 2007 and 2006 were to wholesale distributors for both commercial and residential applications. We rely on commissioned manufacturers' representatives, some of which maintain a consigned inventory of our products, to market our product lines.

DIY. Approximately 15% and 16% of our sales in 2007 and 2006, respectively, were to DIY customers. Our DIY customers demand less technical products, but are highly receptive to innovative designs and new product ideas.

OEMs. Approximately 20% and 19% of our sales in 2007 and 2006, respectively, were to OEMs. In North America, our typical OEM customers are water heater manufacturers, equipment manufacturers needing flow control devices and water systems manufacturers needing backflow preventers. Our sales to OEMs in Europe are primarily to boiler manufacturers and radiant systems manufacturers. Our sales to OEMs in China are primarily to boiler and bath manufacturers, which include manufacturers of faucet and shower products.

In 2007, no customer accounted for more than 10% of our total net sales. Our top ten customers accounted for approximately \$304.3 million, or 22%, of our total net sales in 2007 and \$282.3 million, or 23%, of our total net sales in 2006. Thousands of other customers constituted the remaining 78% of our net sales in 2007 and 77% of our net sales in 2006.

Marketing and Sales

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

Manufacturing

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

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

	Years Ended December 31,		
	2007	2006	2005
	(in millions)		
Capital expenditures	\$ 37.8	\$ 44.7	\$ 18.6
Depreciation	\$ 28.9	\$ 26.7	\$ 23.5

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

Raw Materials

We require substantial amounts of raw materials to produce our products, including bronze, brass, cast iron, steel and plastic, and substantially all of the raw materials we require are purchased from outside sources. We have experienced increases in the costs of certain raw materials, particularly copper. Bronze and brass are copper-based alloys. The spot price of copper increased approximately 41% from December 31, 2005 to December 31, 2007. In response, we have implemented price increases for some of our products that have become more expensive to manufacture due to the increases in raw material costs. During 2007 and 2006, cost increases in raw materials were not completely recovered by increased selling prices or other product cost reductions. We are not able to predict whether or for how

long these cost increases will continue. If these cost increases continue and we are not able to reduce or eliminate the effect of the cost increases by reducing production costs or implementing price increases, our profit margins could decrease.

Code Compliance

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

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

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

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

Product Development and Engineering

We maintain our own product development staff, design teams, and testing laboratories in North America, Europe and China that continuously work to enhance our existing products and develop new products. We maintain sophisticated product development and testing laboratories. Research and development costs included in selling, general, and administrative expense amounted to \$15.1 million, \$12.7 million and \$11.6 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Competition

The domestic and international markets for water safety and flow control devices are intensely competitive and require us to compete against some companies possessing greater financial, marketing and other resources than ours. Due to the breadth of our product offerings, the number and identities of our competitors vary by product line and market. We consider brand preference, engineering specifications, plumbing code requirements, price, technological expertise, delivery times and breadth of product offerings to be the primary competitive factors. We believe that new product development and product engineering are also important to success in the water industry and that our position in the industry is attributable in part to our ability to develop new and innovative products quickly and to adapt and enhance existing products. We continue to develop new and innovative products to enhance market position and are continuing to implement manufacturing and design programs to reduce costs. We cannot be certain that our efforts to develop new products will be successful or that our customers will accept our new products. Although we own certain patents and trademarks that we consider to be of importance, we do not believe that our business and competitiveness as a whole are dependent on any one of our patents or trademarks or on patent or trademark protection generally.

Backlog

Backlog was approximately \$119.1 million at February 15, 2008 and also was approximately \$114.0 million at February 16, 2007. We do not believe that our backlog at any point in time is indicative of future operating results.

Employees

As of December 31, 2007, our wholly-owned and majority-owned domestic and foreign operations employed approximately 7,800 people. None of our employees in North America or China are covered by collective bargaining agreements. In some European countries our employees are subject to traditional national collective bargaining agreements. We believe that our employee relations are good.

Available Information

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

Certifications

Our Chief Executive Officer and Chief Financial Officer have provided the certifications required by rule 13a-14(a) under the Securities Exchange Act of 1934, copies of which are filed as exhibits to this Annual Report on Form 10-K. In addition, an annual chief executive officer certification was submitted by our chief executive officer to the New York Stock Exchange on May 9, 2007 in accordance with the New York Stock Exchange listing requirements.

Executive Officers and Directors

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

Name	Age	Position
Patrick S. O'Keefe	55	Chief Executive Officer, President and Director
William C. McCartney	53	Chief Financial Officer and Treasurer
J. Dennis Cawte	57	Group Managing Director, Europe
Ernest E. Elliott	56	Executive Vice President of Marketing
Michael P. Flanders	49	Executive Vice President of Manufacturing Operations, North America and Asia
Josh C. Fu	51	President, Asia
Gregory J. Michaud	46	Executive Vice President of Human Resources
Taylor K. Robinson	44	Executive Vice President of Supply Chain Management
Lester J. Taufen	64	General Counsel, Vice President of Legal Affairs and Secretary
Douglas T. White	63	Group Vice President
Robert L. Ayers(1)(3)	62	Director
Richard J Carthcart(1)(3)	63	Director
Timothy P. Horne	69	Director
Ralph E. Jackson Jr.(2)(3)	66	Director
Kenneth J. McAvoy(1)(3)	67	Director
John K. McGillicuddy(1)	64	Director
Gordon W. Moran(2)(3)	69	Non-Executive Chairman of the Board and Director
Daniel J. Murphy, III(2)	66	Director

- (1) Member of the Audit Committee
- (2) Member of the Compensation Committee
- (3) Member of the Nominating and Corporate Governance Committee

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

William C. McCartney joined our Company in 1985 as Controller. He was appointed our Vice President of Finance in 1994 and served as our Corporate Controller from 1988 to 1999. He was appointed Chief Financial Officer and Treasurer in 2000. He served as Secretary of the Company from January 2000 to November 2005.

J. Dennis Cawte joined our Company in 2001 and was appointed Group Managing Director Europe. Prior to joining our Company, he was European President of PCC Valve and Controls, a

division of Precision Castparts Corp., a manufacturer of components and castings to the aeronautical industry, from 1999 to 2001. He had also worked for approximately 20 years for Keystone Valve International, a manufacturer and distributor of industrial valves, where his most recent position was the Managing Director Northern Europe, Middle East, Africa and India.

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

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

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

Gregory J. Michaud joined our Company in April 2006 as Executive Vice President of Human Resources. Prior to joining our Company, he served as Vice President, Human Resources of the Compact Equipment division of Ingersoll-Rand Company Limited, a diversified industrial company, from June 2003 through March 2006. He served as Vice President, Human Resources of the Productivity Solutions division of Ingersoll-Rand from January 2003 to June 2003 and as Director, Human Resources & Corporate Organizational Planning of Ingersoll-Rand from June 2000 to December 2002.

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

Lester J. Taufen joined our Company in 1999 as Associate Corporate Counsel. He was appointed General Counsel, Vice President of Legal Affairs and Assistant Secretary in January 2000. He was appointed Secretary in November 2005. Prior to joining our Company, he was employed for 13 years at Elf Atochem North America, a chemical manufacturing company, serving as Senior Counsel.

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

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

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

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

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

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

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

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

Daniel J. Murphy, III has served as a director of our Company since 1986. He has been the Chairman of Northmark Bank, a commercial bank he founded, since 1987. Prior to forming Northmark

Bank in 1987, he was a Managing Director of Knightsbridge Partners, a venture capital firm, from January to August 1987, and President and a director of Arltru Bancorporation, a bank holding company, and its wholly-owned subsidiary, Arlington Trust Company, from 1980 to 1986.

Product Liability, Environmental and Other Litigation Matters

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

Contingencies

James Jones Litigation

On June 25, 1997, Nora Armenta (the Relator) filed a civil action in the California Superior Court for Los Angeles County (the Armenta case) against James Jones Company (James Jones), Mueller Co., Tyco International (U.S.), and the Company. We formerly owned James Jones. The Relator filed under the qui tam provision of the California state False Claims Act, Cal. Govt. Code § 12650 et seq. (California False Claims Act) and generally alleged that James Jones and the other defendants violated this statute by delivering some "defective" or "non-conforming" waterworks parts to thirty-four municipal water systems in the State of California. The Relator filed a First Amended Complaint in November 1998 and a Second Amended Complaint in December 2000, which brought the total number of plaintiffs to 161. To date, 11 of the named cities have intervened, and attempts by four other named cities to intervene have been denied.

In June 2002, the trial court excluded 47 cities from this December 2000 total of 161, but this exclusion was reversed by an August 30, 2006 California Court of Appeal ruling that is now final. This August 30, 2006 Court of Appeal ruling also reversed dismissals of Tyco International and Mueller Co., and this allowed the Relator to make a successful motion that removed the Armenta Case litigation from Judge Lichtman's court to the court of Judge Chaney, another complex litigation judge.

One of the allegations in the Second Amended Complaint and the Complaints-in-Intervention is that purchased non-conforming James Jones waterworks parts may leach into public drinking water elevated amounts of lead that may create a public health risk because they were made out of '81 bronze alloy (UNS No. C8440) and contain more lead than the specified and advertised '85 bronze alloy (UNS No. C83600). This contention is based on the average difference of about 2% lead content between '81 bronze (6% to 8% lead) and '85 bronze (4% to 6% lead) and the assumption that this would mean increased consumable lead in public drinking water that could cause a public health concern. We believe the evidence and discovery available to date indicates that this is not the case.

In addition, '81 bronze is used extensively in municipal and home plumbing systems and is approved by municipal, local and national codes. The Federal Environmental Protection Agency also defines metal for pipe fittings with no more than 8% lead as "lead free" under Section 1417 of the Federal Safe Drinking Water Act.

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

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

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

After the Phase I settlement, the Court permitted the defendants to select five additional cities to serve as the plaintiffs in a second trial phase of the case. Contra Costa, Corona, Santa Ana, Santa Cruz and Vallejo were chosen. The Company and James Jones then reached an agreement to settle the claims of the City of Santa Ana for a total of \$45,000, an amount which approximates Santa Ana's purchases of James Jones products during the relevant period. The Santa Ana settlement was approved by the Court and then completed.

On June 22, 2005, the Court dismissed the claims of the remaining Phase II cities (Contra Costa, Corona, Santa Cruz and Vallejo). The Court ruled that the Relator and these cities were required to show that the cities had received out of spec parts which were related to specific invoices and that this showing had not been made. Although each city's claim is unique, this ruling is significant for the claims of the remaining cities, and the Relator appealed. On June 29, 2007, the appellate court dismissed this appeal. However, this judgment can be appealed again at the conclusion of the entire case. The trial court has scheduled a trial on March 17, 2009 for six Phase III cities with three cities to be selected by each side. Litigation is inherently uncertain, and we are unable to predict the outcome of this case.

On September 15, 2004, the Relator's attorneys filed a new common law fraud lawsuit in the California Superior Court for the City of Banning and forty-six other cities and water districts against James Jones, Watts and Mueller Co. based on the same transactions alleged in the Armenta case. About forty-two of the plaintiffs in this new lawsuit are also plaintiffs in the Armenta case. The statute of limitations threshold issue is in the process of being resolved for these plaintiffs. Litigation is inherently uncertain, and we are unable to predict the outcome of this case.

We have a reserve of approximately \$28.0 million with respect to the James Jones Litigation in our consolidated balance sheet as of December 31, 2007. We believe, on the basis of all available information, that this reserve is adequate to cover the probable and reasonably estimable losses resulting from the Armenta case and the insurance coverage litigation with Zurich American Insurance Company (Zurich) discussed below. We are currently unable to make an estimate of the range of any additional losses.

On February 14, 2001, after our insurers had denied coverage for the claims in the Armenta case, we filed a complaint for coverage against our insurers in the California Superior Court (the coverage case). James Jones filed a similar complaint, the cases were consolidated, and the trial court made summary adjudication rulings that Zurich must pay all reasonable defense costs incurred by us and James Jones in the Armenta case since April 23, 1998 as well as such defense costs in the future until the end of the Armenta case. In August 2004, the California Court of Appeal affirmed these rulings, and, on December 1, 2004, the California Supreme Court denied Zurich's appeal of this decision. This denial permanently established Zurich's obligation to pay Armenta defense costs for both us (approximately \$16.6 million plus future costs) and James Jones (which we estimate to be \$17.0 million plus future costs), and Zurich is currently making payments of incurred Armenta defense costs. However, as noted below, Zurich asserts that the defense costs paid by it are subject to reimbursement.

On November 22, 2002, the trial court entered a summary adjudication order that Zurich must indemnify and pay us and James Jones for amounts paid to settle with the City of Los Angeles. Zurich's attempt to obtain appellate review of this order was denied, but Zurich will still be able to appeal this order at the end of the coverage case. On August 6, 2004, the trial court made another summary adjudication ruling that Zurich must indemnify and pay us and James Jones for the \$13.0 million paid to settle the claims of the Phase I cities described above. Zurich's attempt to obtain

appellate review of this ruling was denied on December 3, 2004 by the California Court of Appeal, but Zurich will still be able to appeal this order at the end of the coverage case. Zurich has now made all of the payments required by these indemnity orders.

On February 8, 2006, Zurich filed a motion to set aside as void the November 22, 2002 and August 6, 2004 summary adjudication indemnity payment orders. After this motion was denied, Zurich's appeal was also denied and the California Supreme Court denied Zurich's petition for review. We are currently unable to predict the finality of these indemnity payment orders since Zurich can also appeal them at the end of the coverage case. We have recorded reimbursed indemnity settlement amounts (but not reimbursed defense costs) as a liability pending court resolution of the indemnification matter as it relates to Zurich.

Zurich has asserted that all amounts (which we estimate to be \$56.0 million for both defense costs and indemnity amounts paid for settlements) paid by it to us and James Jones are subject to reimbursement under Deductible Agreements related to the insurance policies between Zurich and Watts. If Zurich were to prevail on this argument, James Jones would have a possible indemnity claim against us for its exposure from the Armenta case. We believe the Armenta case should be viewed as one occurrence and the deductible amount should be \$0.5 million per occurrence.

These reimbursement claims are subject to arbitration under the Watts/Zurich Deductible Agreements. Zurich claims its reimbursement right for defense costs paid arises under six Deductible Agreements, and we contend that only two Deductible Agreements apply. We further contend that a final decision in California supports our position on the number of Deductible Agreements that should apply to defense costs. On January 31, 2006, the federal district court in Chicago, Illinois determined that there are disputes under all Deductible Agreements in effect during the period in which Zurich issued primary policies and that the arbitrator could decide which agreements would control reimbursement claims. We appealed this ruling. On October 20, 2006, the United States Court of Appeals for the Seventh Circuit affirmed that an arbitration panel could decide which deductible agreements between Zurich and us would control Zurich's reimbursement claim for defense costs paid in the James Jones case. As a result of this development, we recorded a pre-tax charge of \$5.0 million to discontinued operations in 2006.

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

Environmental Remediation

We have been named as a potentially responsible party (PRP) with respect to a limited number of identified contaminated sites. The levels of contamination vary significantly from site to site as do the related levels of remediation efforts. Environmental liabilities are recorded based on the most probable cost, if known, or on the estimated minimum cost of remediation. We accrue estimated environmental liabilities based on assumptions, which are subject to a number of factors and uncertainties. Circumstances which can affect the reliability and precision of these estimates include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation and the time period over which remediation may occur. We recognize changes in estimates as new remediation requirements are defined or as new information becomes available. At December 31, 2007, we have a reserve of approximately \$1.4 million (environmental accrual), which we estimate will likely be paid for environmental remediation liabilities over the next five to ten years. Based on the facts currently known to us, we do not believe that the ultimate outcome of these matters will have a material adverse effect on our liquidity, financial condition or results of operations. Some of our environmental matters are inherently uncertain and there exists a possibility that we may ultimately incur losses from these matters in excess of the amount accrued. However, we cannot currently estimate the amount of any such additional losses.

We are defending approximately 100 cases filed primarily, but not exclusively, in Mississippi and New Jersey state courts alleging injury or death as a result of exposure to asbestos. These filings typically name multiple defendants and are filed on behalf of many plaintiffs. They do not identify any particular Watts products as a source of asbestos exposure. To date, we have been dismissed from each case when the scheduled trial date comes near or when discovery fails to yield any evidence of exposure to any of our products. Based on the facts currently known to us, we do not believe that the ultimate outcome of these claims will have a material adverse effect on our liquidity, financial condition or results of operations.

Other Litigation

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

Item 1A. RISK FACTORS.

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

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

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

We require substantial amounts of raw materials, including bronze, brass, cast iron, steel and plastic and substantially all of the raw materials we require are purchased from outside sources. The availability and costs of raw materials may be subject to curtailment or change due to, among other things, new laws or regulations, suppliers' allocations to other purchasers, interruptions in production by suppliers and changes in exchange rates and worldwide price and demand levels. We typically do not enter into long-term supply agreements. Our inability to obtain adequate supplies of raw materials for our products at favorable costs, or at all, could have a material adverse effect on our business, financial condition or results of operations by decreasing our profit margins and by hindering our ability to deliver products to our customers on a timely basis. During 2006 and continuing through 2007, the costs of many of these raw materials were at the highest levels that they have been in many years. We may continue to experience further cost increases of these materials. In 2006 and 2007, cost increases in raw materials were not completely recovered by increased selling prices or other product cost reductions. If we are not able to reduce or eliminate the effect of these cost increases through lowering other costs of production or successfully implementing price increases to our customers, such cost increases from our vendors could continue to have a negative effect on our financial results. Additionally, we continue to purchase increased levels of finished product from international sources. If

there is an interruption in delivering these finished products to our domestic warehouses, this could have a negative effect on our financial results.

Down economic cycles, particularly reduced levels of residential and non-residential starts and remodeling, could have an adverse effect on our revenues and operating results.

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

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

One of our strategies is to increase our revenues and profitability and expand our markets through acquisitions that will provide us with complementary water-related products and increase market share for our existing product lines. We cannot be certain that we will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, companies acquired recently and in the future may not achieve revenues, profitability or cash flows that justify our investment in them. We expect to spend significant time and effort in expanding our existing businesses and identifying, completing and integrating acquisitions. We have faced increasing competition for acquisition candidates which have resulted in significant increases in the purchase prices of many acquisition candidates. This competition, and the resulting purchase price increases, may limit the number of acquisition opportunities available to us, possibly leading to a decrease in the rate of growth of our revenues and profitability. In addition, acquisitions may involve a number of special risks, including, but not limited to:

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

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

We maintain strict quality controls and procedures, including the testing of raw materials and safety testing of selected finished products. However, we cannot be certain that our testing will reveal latent defects in our products or the materials from which they are made, which may not become apparent until after the products have been sold into the market. We also cannot be certain that our suppliers will always eliminate latent defects in products we purchase from them. Accordingly, there is a risk that product defects will occur, which could require a product recall. Product recalls can be

expensive to implement and, if a product recall occurs during the product's warranty period, we may be required to replace the defective product. In addition, a product recall may damage our relationship with our customers and we may lose market share with our customers. Our insurance policies may not cover the costs of a product recall.

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

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

We have been and expect to continue to be subject to various product liability claims or other lawsuits, including, among others, that our products include inadequate or improper instructions for use or installation, or inadequate warnings concerning the effects of the failure of our products. In the event that we do not have adequate insurance or contractual indemnification, damages from these claims would have to be paid from our assets and could have a material adverse effect on our results of operations, liquidity and financial condition. We, like other manufacturers and distributors of products designed to control and regulate fluids and gases, face an inherent risk of exposure to product liability claims and other lawsuits in the event that the use of our products results in personal injury, property damage or business interruption to our customers. Although we maintain strict quality controls and procedures, including the testing of raw materials and safety testing of selected finished products, we cannot be certain that our products will be completely free from defect. In addition, in certain cases, we rely on third-party manufacturers for our products or components of our products. Although we have product liability and general insurance coverage, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost, or, if available, will be adequate to cover any such liabilities. For more information, see "Item 1. Business—Product Liability, Environmental and Other Litigation Matters."

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

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

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

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

We are exposed to fluctuations in foreign currencies, as a portion of our sales and certain portions of our costs, assets and liabilities are denominated in currencies other than U.S. dollars. Approximately 41.7% of our sales during the year ended December 31, 2007 were from sales outside of the U.S. compared to 38.0% for the year ended December 31, 2006. For the years ended December 31, 2007 and 2006, the appreciation of the euro against the U.S. dollar had a positive impact on sales of approximately \$34.1 million and \$7.1 million, respectively. Additionally, our Canadian operations require significant amounts of U.S. purchases for their operations. Instead of buying or manufacturing domestically, we currently have a favorable cost structure for goods we source from our joint venture, our wholly-owned subsidiaries in China and our outside vendors. In 2005, China revalued its currency higher against the U.S. dollar and stated it would no longer tie the yuan to a fixed rate against the U.S. currency. The yuan was valued at 7.3 and 7.8 at December 31, 2007 and 2006, respectively. China also stated it will peg the yuan against numerous currencies, although it will keep the yuan in a tight band rather than letting it trade freely. The spot rate of the euro, Canadian dollar and yuan increased in value from December 31, 2006 to December 31, 2007 by approximately 12%, 16% and 6% respectively, against the U.S. dollar. If our share of revenue and purchases in non-dollar denominated currencies continues to increase in future periods, exchange rate fluctuations will likely have a greater impact on our results of operations and financial condition.

There are risks in expanding our manufacturing operations and acquiring companies in China.

As part of our strategy, we have shifted a portion of our manufacturing operations to China to reduce our production costs and to sell products into the Chinese market. This shift has subjected a greater portion of our operations to the risks of doing business in China. In addition, we have increased our participation in the Chinese water and power infrastructure markets with our acquisition of Changsha Valve Works. Changsha sells exclusively into the domestic Chinese marketplace. The increased production levels in China require increased levels of working capital and manufacturing equipment. If we are unable to quickly train these new employees we may experience product quality issues. The Chinese central and local government authorities have a higher degree of control over our businesses in China than is customary in many of the countries in which we operate, and this makes the process of obtaining necessary regulatory approval in China inherently unpredictable. For instance, as announced in 2006, the local Chinese authorities in Tianjin, China informed us that property occupied by our TWT joint venture will be taken over by eminent domain by the end of the second quarter of 2008, and we have incurred significant costs in connection with the relocation of our operations there. In addition, the protection accorded our proprietary technology and know-how under the Chinese legal system is not as strong as in the United States and, as a result, we may lose valuable trade secrets and competitive advantage.

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

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

In addition, we have an ongoing manufacturing restructuring program to reduce our manufacturing costs. If our planned manufacturing plant consolidations in the United States and Europe and our plant

relocations in China are not successful, our results of operations and financial condition could be materially adversely affected.

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

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

- intense competition;
- changes in specifications required by our customers, plumbing codes and/or regulatory agencies;
- technically complex products; and
- constant improvement to existing products and introductions of new products.

We believe our future success will depend, in part, on our ability to anticipate or adapt to these factors and to offer, on a timely basis, products that meet customer demands and the requirements of plumbing codes and/or regulatory agencies. The development of new or enhanced products is a complex and uncertain process requiring the anticipation of technological and market trends. We may experience design, manufacturing, marketing or other difficulties, such as an inability to attract a sufficient number of experienced engineers, that could delay or prevent our development, introduction, approval or marketing of new products or enhancements and result in unexpected expenses. Such difficulties could cause us to lose business from our customers and could adversely affect our competitive position; in addition, added expenses could decrease the profitability associated with those products that do not gain market acceptance.

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

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

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

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

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

We rely on a combination of patents, copyrights, trademarks, trade secrets, confidentiality provisions and licensing arrangements to establish and protect our proprietary rights. We may be required to spend resources to monitor and police our intellectual property rights. If we fail to successfully enforce our intellectual property rights, our competitive position could suffer, which could harm our operating results. We have been limited from selling products from time-to-time because of existing patents.

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

As of December 31, 2007, we recorded goodwill and non-amortizable intangible assets of \$385.8 million and \$52.2 million, respectively. If we are required to take an impairment charge to our goodwill or intangible assets in connection with the requirements of FAS 142, our operating results may decrease and our financial condition may be harmed. Under FAS 142, goodwill and identifiable intangible assets that have indefinite useful lives are no longer amortized. In lieu of amortization, we are required to perform an annual impairment review of both goodwill and non-amortizable intangible assets. We concluded that no impairment existed at October 28, 2007, the time of our latest annual review. We perform our annual test for indications of goodwill and non-amortizable intangible assets impairment in the fourth quarter of our fiscal year or sooner if indicators of impairment exist.

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

Our largest customer, The Home Depot Inc. and its wholly-owned subsidiaries, accounted for approximately \$100.2 million, or 7%, of our total net sales for the year ended December 31, 2007 and \$122.7 million, or 10%, of our total net sales for year ended December 31, 2006. Our customers generally are not obligated to purchase any minimum volume of products from us and are able to terminate their relationships with us at any time. In addition, increases in the prices of our products could result in a reduction in orders for our products from Home Depot and other customers. A significant reduction in orders from, or change in terms of contracts with, Home Depot or other significant customers could have a material adverse effect on our future results of operations.

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

Our revolving credit facility and other senior indebtedness contain operational and financial covenants that restrict our ability to make distributions to stockholders, incur additional debt and make acquisitions and other investments unless we satisfy certain financial tests and comply with various financial ratios. If we do not maintain compliance with these covenants, our creditors could declare a default under our revolving credit facility or senior notes and our indebtedness could be declared immediately due and payable. Our ability to comply with the provisions of our indebtedness may be affected by changes in economic or business conditions beyond our control.

Investments in auction rate certificates are subject to risks which may cause losses and affect the liquidity of these investments.

At December 31, 2007, we had \$39.0 million in investment securities. We have historically invested these amounts in auction rate certificates whose underlying investments are AAA rated municipal bonds. Our auction rate certificates are bought and sold at auction with reset dates of up to 35 days. Through February 25, 2008, we liquidated approximately \$22.0 million of our auction rate certificates at par value and invested the proceeds into money market accounts. At February 25, 2008, we held approximately \$17.0 million of auction rate certificates whose underlying investments are AAA rated municipal bonds.

We have no current indications that the securities we hold may be impaired. However, volatility in the credit markets could affect our ability to liquidate these investments or cause the fair value of the securities to be impaired. If liquidity of the securities becomes prohibitive, we may be forced to hold the securities until maturity or until conditions improve, which could be as long as 33 years. Subsequent to December 31, 2007 through February 25, 2008, we experienced failed auctions on \$6.6 million of our auction rate certificates. We do not have a present need to access these funds for operational purposes. The amounts associated with failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process or the underlying securities have matured. As a result, we have classified the \$17.0 million of auction rate certificates held as of February 25, 2008 as long-term assets in the our December 31, 2007 consolidated balance sheet. If the fair value of the securities deteriorates, we would be required to adjust the carrying value of the securities. The market risks associated with our auction rate certificates could adversely affect our results of operations, liquidity and financial condition.

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

As of February 1, 2008, Timothy P. Horne, a member of our board of directors, beneficially owned approximately 19.6% of our outstanding shares of Class A Common Stock (assuming conversion of all shares of Class B Common Stock beneficially owned by Mr. Horne into Class A Common Stock) and approximately 99.0% of our outstanding shares of Class B Common Stock, which represents approximately 70.4% of the total outstanding voting power. As long as Mr. Horne controls shares representing at least a majority of the total voting power of our outstanding stock, Mr. Horne will be able to unilaterally determine the outcome of most stockholder votes, and other stockholders will not be able to affect the outcome of any such votes.

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

As of February 1, 2008, there were outstanding 29,680,122 shares of our Class A Common Stock and 7,293,880 shares of our Class B Common Stock. Shares of our Class B Common Stock may be converted into Class A Common Stock at any time on a one for one basis. Under the terms of a registration rights agreement with respect to outstanding shares of our Class B Common Stock, the holders of our Class B Common Stock have rights with respect to the registration of the underlying Class A Common Stock. Under these registration rights, the holders of Class B Common Stock may require, on up to two occasions, that we register their shares for public resale. If we are eligible to use Form S-3 or a similar short-form registration statement, the holders of Class B Common Stock may require that we register their shares for public resale up to two times per year. If we elect to register any shares of Class A Common Stock for any public offering, the holders of Class B Common Stock are entitled to include shares of Class A Common Stock into which such shares of Class B Common Stock may be converted in such registration. However, we may reduce the number of shares proposed to be registered in view of market conditions. We will pay all expenses in connection with any registration, other than underwriting discounts and commissions. If all of the available registered shares are sold into the public market the trading price of our Class A Common Stock could decline.

Our Class A Common Stock has insignificant voting power.

Our Class B Common Stock entitles its holders to ten votes for each share and our Class A Common Stock entitles its holders to one vote per share. As of February 1, 2008, our Class B Common Stock constituted 19.7% of our total outstanding common stock and 71.1% of the total outstanding voting power and thus is able to exercise a controlling influence over our business.

Item 1B. UNRESOLVED STAFF COMMENTS.

None.

Item 2. PROPERTIES.

As of December 31, 2007, we maintained approximately 78 facilities worldwide, including our corporate headquarters located in North Andover, Massachusetts. The remaining facilities consist of foundries, manufacturing facilities, warehouses, sales offices and distribution centers. The principal properties in each of our three geographic segments and their location, principal use and ownership status are set forth below:

North America:

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

Europe:

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

China:

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

Certain of our facilities are subject to mortgages and collateral assignments under loan agreements with long-term lenders. In general, we believe that our properties, including machinery, tools and equipment, are in good condition, well maintained and adequate and suitable for their intended uses. We believe that our manufacturing facilities are currently operating at a level that our management considers normal capacity, except for our plants in St. Pauls, North Carolina, Langley, BC, Canada and Gardolo, Italy, which are under-utilized. Management believes capacity utilization will continue to increase in 2008 at these plants, subject to unexpected changes in our sales volume.

Item 3. LEGAL PROCEEDINGS.

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

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

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

PART II

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

The following table sets forth the high and low sales prices of our Class A Common Stock on the New York Stock Exchange during 2007 and 2006 and cash dividends paid per share.

	2007			2006		
	High	Low	Dividend	High	Low	Dividend
First Quarter	\$ 46.71	\$ 35.05	\$.10	\$ 37.00	\$ 29.55	\$.09
Second Quarter	41.34	36.10	.10	40.03	29.00	.09
Third Quarter	39.96	30.40	.10	36.24	28.08	.09
Fourth Quarter	33.09	25.40	.10	45.43	30.71	.09

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

Aggregate common stock dividend payments for 2007 and 2006 were \$15.6 million and \$12.4 million, respectively. While we presently intend to continue to pay cash dividends, the payment of future cash dividends depends upon the Board of Directors' assessment of our earnings, financial condition, capital requirements and other factors.

The number of record holders of our Class A Common Stock as of February 22, 2008 was 172. The number of record holders of our Class B Common Stock as of February 22, 2008 was 7.

Beginning in the second quarter of 2007, the Company satisfies the minimum withholding tax obligation due upon the vesting of shares of restricted stock and the conversion of restricted stock units into shares of Class A Common Stock by automatically withholding from the shares being issued a number of shares with an aggregate fair market value on the date of such vesting or conversion that would satisfy the withholding amount due.

The following table includes information with respect to shares of the Company's Class A Common Stock withheld to satisfy withholding tax obligations during the quarter ended December 31, 2007.

Period	Issuer Purchases of Equity Securities			(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	
October 1, 2007 - October 28, 2007	70	\$ 32.42	—	—
October 29, 2007 - November 25, 2007	—	—	—	—
November 26, 2007 - December 31, 2007	—	—	—	—
Total	70	\$ 32.42	—	—

The following table includes information with respect to repurchases we made of our Class A Common Stock during the quarter ended December 31, 2007.

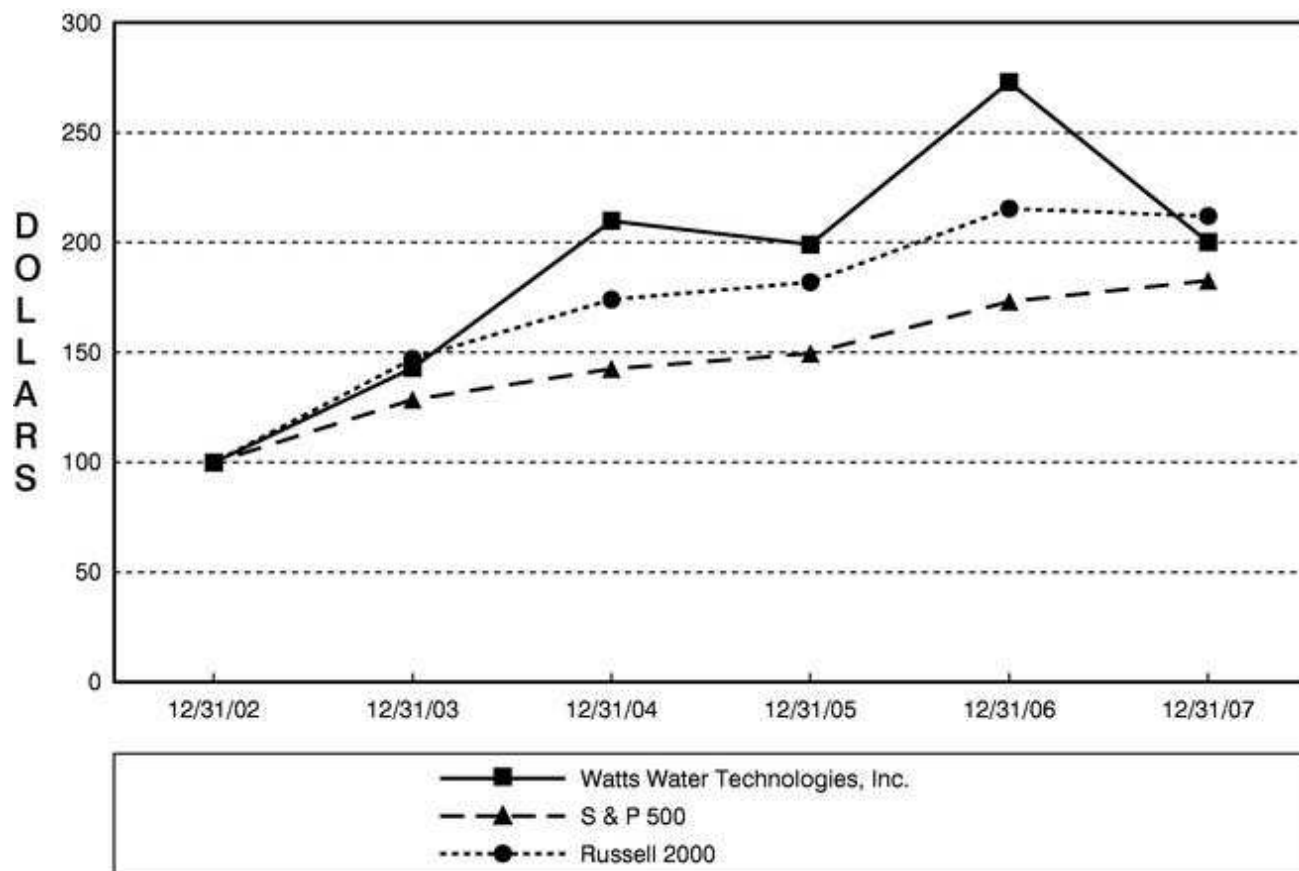
Period	(a) Total Number of Shares (or Units) Purchased(1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs(1)	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs(1)
October 1, 2007 - October 28, 2007	—	—	—	—
October 29, 2007 - November 25, 2007	176,330	\$ 27.94	176,330	2,823,670
November 26, 2007 - December 31, 2007	691,121	\$ 29.00	691,121	2,132,549
Total	867,451	\$ 28.78	867,451	2,132,549

- (1) On November 9, 2007, we announced that our Board of Directors had authorized a stock repurchase program. Under the program, we may repurchase up to an aggregate of 3.0 million shares of our Class A Common Stock in open market purchases or in privately negotiated transactions.

Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on our Class A Common Stock for the last five years with the cumulative return of companies on the Standard & Poor's 500 Stock Index and the Russell 2000 Index. We chose the Russell 2000 Index because it represents companies with a market capitalization similar to that of Watts. The graph assumes that the value of the investment in our Class A Common Stock and each index was \$100 at December 31, 2002 and that all dividends were reinvested.

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



* \$100 invested on December 31, 2002 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Cumulative Total Return

	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Watts Water Technologies, Inc	100.00	143.05	210.02	199.34	273.27	200.42
S & P 500	100.00	128.68	142.69	149.70	173.34	182.87
Russell 2000	100.00	147.25	174.24	182.18	215.64	212.26

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

Item 6. SELECTED FINANCIAL DATA.

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

FIVE-YEAR FINANCIAL SUMMARY

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

	Year Ended 12/31/07(1)(7)	Year Ended 12/31/06(2)(7)	Year Ended 12/31/05(3)(4)(7)	Year Ended 12/31/04(5)(6)(7)	Year Ended 12/31/03(7)(8)
Statement of operations data:					
Net sales	\$ 1,382.3	\$ 1,230.8	\$ 924.3	\$ 824.6	\$ 701.9
Income from continuing operations	77.6	77.1	55.0	48.7	36.4
Loss from discontinued operations, net of taxes	(.2)	(3.4)	(.4)	(1.9)	(3.1)
Net income	77.4	73.7	54.6	46.8	33.4
Income per share from continuing operations—diluted	1.99	2.29	1.67	1.49	1.32
Loss per share from discontinued operations—diluted	(.01)	(.10)	(.01)	(.06)	(.11)
Net income per share—diluted	1.99	2.19	1.66	1.43	1.21
Cash dividends declared per common share	\$.40	\$.36	\$.32	\$.28	\$.25
Balance Sheet Data (at year end):					
Total assets	\$ 1,729.3	\$ 1,660.9	\$ 1,101.0	\$ 922.7	\$ 840.9
Long-term debt, net of current portion	\$ 432.2	\$ 441.7	\$ 293.4	\$ 180.6	\$ 179.1

- (1) For the year ended December 31, 2007, net income includes the following net pre-tax costs: change in estimate of workers compensation costs of \$2.9 million, severance and product line discontinuance costs in North America of \$0.4 million and \$3.1 million, respectively; accelerated depreciation and asset write-downs, product line discontinuance costs and severance costs in China of \$2.9 million, \$0.7 million and \$0.4 million, respectively, and minority interest income of \$0.9 million. The after-tax cost of these items was \$6.9 million.
- (2) For the year ended December 31, 2006, net income includes the following net pre-tax gain: gain on sales of buildings of \$8.2 million, restructuring costs consisting primarily of European severance of \$2.2 million and amortization of \$0.4 million, other costs consisting of accelerated depreciation and severance in our Chinese joint venture of \$4.7 million and minority interest income of \$1.5 million. The after-tax gain of these items was \$1.5 million.
- (3) For the year ended December 31, 2005, net income includes the following pre-tax costs: restructuring of \$0.7 million and other costs consisting of accelerated depreciation and asset write-downs of \$1.8 million. The after-tax cost of these items was \$1.6 million.
- (4) For the year ended December 31, 2005, net income includes a net after-tax charge of \$0.9 million for a selling, general and administrative expense charge of \$1.5 million related to a contingent earn-out agreement.
- (5) For the year ended December 31, 2004, net income includes a net after-tax charge of \$2.3 million for certain accrued expense adjustments, which are included in selling, general and administrative expense after-tax charges of \$3.5 million related to a contingent earn-out agreement and \$0.7 million for various accrual adjustments and \$0.5 million recorded as an income tax benefit.

- (6) For the year ended December 31, 2004, net income includes the following pre-tax costs: restructuring of \$0.1 million and other costs consisting of accelerated depreciation of \$2.9 million. The after-tax cost of these items was \$1.8 million.
- (7) In December 2004, we decided to divest our interest in our minority-owned subsidiary, Jameco International, LLC (Jameco LLC). We recorded in discontinued operation a net of tax impairment charge of \$0.7 million for the year ended December 31, 2004. Also included in discontinued operations is the net of tax operating results of Jameco LLC of \$0.1 million of loss and \$0.1 million of income for the year ended December 31, 2004 and 2003, respectively. In September 1996, we divested our Municipal Water Group of businesses, which included Henry Pratt, James Jones Company and Edward Barber and Company Ltd. Costs and expenses related to the Municipal Water Group, for 2007, 2006, 2005, 2004 and 2003 relate to legal and settlement costs associated with the James Jones Litigation. The loss, net of taxes, consists of \$0.2 million, \$3.4 million, \$0.4 million, \$1.1 million and \$3.1 million for the years ended December 31, 2007, 2006, 2005, 2004 and 2003, respectively.
- (8) For the year ended December 31, 2003, net income includes the following pre-tax costs: restructuring of \$0.4 million; other costs consist of: inventory and other asset write-downs and accelerated depreciation of \$0.5 million; and \$0.8 million of other related charges. The after-tax cost of these items was \$1.1 million.

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

Overview

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

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

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

We believe that the factors relating to our future growth include our ability to continue to make selective acquisitions, both in our core markets as well as in new complementary markets, regulatory requirements relating to the quality and conservation of water, increased demand for clean water with continued enforcement of plumbing and building codes and a healthy economic environment. We have completed 31 acquisitions since divesting our industrial and oil and gas business in 1999. Our acquisition strategy focuses on businesses that manufacture preferred brand name products that address our themes of water quality, water conservation, water safety and water flow control and related complementary markets. We target businesses that will provide us with one or more of the following: an entry into new markets, an increase in shelf space with existing customers, a new or improved technology or an expansion of the breadth of our water quality, water conservation, water safety and water flow control products for the residential and commercial markets. In 2007 and 2006, sales from acquisitions contributed approximately 3.9% and 20.9%, to our total sales growth over the prior year.

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

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

We require substantial amounts of raw materials to produce our products, including bronze, brass, cast iron, steel and plastic, and substantially all of the raw materials we require are purchased from outside sources. We have experienced increases in the costs of certain raw materials, particularly copper. Bronze and brass are copper-based alloys. The spot price of copper increased approximately 41% from December 31, 2005 to December 31, 2007.

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

Another risk we face in all areas of our business is competition. We consider brand preference, engineering specifications, code requirements, price, technological expertise, delivery times and breadth of product offerings to be the primary competitive factors. As mentioned previously, we believe that the product development, product testing capability and investment in plant and equipment needed to manufacture products in compliance with code requirements, represent a barrier to entry for competitors. We are committed to maintaining our capital equipment at a level consistent with current technologies, and thus we spent approximately \$37.8 million in 2007 and \$44.7 million in 2006 (including approximately \$18.0 million related to the purchase and subsequent sale-leaseback of a building in Italy).

Recent Developments

On February 5, 2008, we declared a quarterly dividend of eleven cents (\$0.11) per share on each outstanding share of Class A Common Stock and Class B Common Stock. This is an increase of \$0.01 per share compared to the dividend paid for the comparable period last year.

On December 3, 2007, we entered into an Equity Transfer Agreement (the "Agreement") with our joint venture partners to purchase the remaining 40% of the outstanding ownership interest in Tianjin Tanggu Watts Valve Company Limited ("TWT") that we did not already own. The purchase price will be approximately \$5.2 million, payable after certain closing conditions are met, including the approval of the Agreement by the local Chinese authorities, which we expect will occur by the end of the second quarter of 2008. We expect to record approximately \$3.7 million in goodwill for this acquisition.

As part of this Agreement, the joint venture partners are obligated to reimburse approximately \$2.0 million to TWT at the closing for relocation costs including lost land use rights. These costs were previously guaranteed by the joint venture partners as part of the original joint venture contract. TWT lost the future use of these land use rights when the local Chinese government decreed that the land where TWT's facility is located would be taken over by eminent domain. Since 2006, TWT has accelerated the amortization of the land use rights assets to coincide with the expected move. Further TWT has incurred and will incur relocation costs to move its operations. TWT had not previously recorded a receivable for this reimbursement amount, as collectibility of the amount under the original joint venture contract was not certain. The \$2.0 million reimbursement will be recorded when the Agreement is finalized as an equity infusion by the joint venture partners. The cost to move TWT's operations was included in the restructuring program announced in October 2007.

On November 9, 2007, we acquired the assets and business of Topway Global, Inc. (Topway) located in Brea, California for approximately \$18.4 million, of which \$0.3 million of transaction costs remain to be paid. Topway manufactures a wide variety of water softeners, point of entry filter units, and point of use drinking water systems for residential, commercial and industrial applications.

On November 9, 2007, we announced that our Board of Directors had authorized the repurchase of up to 3.0 million shares of our Class A Common Stock. As of February 22, 2008, we have repurchased 2.2 million shares of stock for a total cost of \$63.2 million.

Results of Operations

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

Net Sales. Our business is reported in three geographic segments: North America, Europe and China. Our net sales in each of these segments for the years ended December 31, 2007 and 2006 were as follows:

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

The increase in net sales is attributable to the following:

					Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
	North America	Europe	China	Total	North America	Europe	China	Total	North America	Europe	China
(Dollars in millions)											
Organic growth	\$ 41.0	\$ 13.7	\$ 8.5	\$ 63.2	3.3%	1.1%	.7%	5.1%	5.0%	3.7%	20.3%
Foreign exchange	3.9	34.1	2.4	40.4	.3	2.8	.2	3.3	.5	9.3	5.8
Acquisitions	4.8	37.3	5.8	47.9	.4	3.0	.5	3.9	.6	10.2	13.8
Total	\$ 49.7	\$ 85.1	\$ 16.7	\$ 151.5	4.0%	6.9%	1.4%	12.3%	6.1%	23.2%	39.9%

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

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

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

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

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

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

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

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

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

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

In 2007, we undertook a review of certain product lines and our overall manufacturing capacity. Based on that review, we initiated a global restructuring program that was approved by our Board of Directors on October 30, 2007. We also discontinued certain product lines. This program is expected to include the shutdown of five manufacturing facilities and the rightsizing of a sixth facility, including the relocation of our joint venture facility in China that was previously disclosed. The restructuring program and charges for certain product line discontinuances will include pre-tax charges totaling approximately \$12.9 million. Charges are primarily for severance (\$4.3 million), relocation costs (\$2.8 million) and other asset write-downs and expected net losses on asset disposals (\$2.0 million) and will result in the elimination of approximately 330 positions worldwide. The pre-tax charge in 2007 of \$4.3 million relates primarily to product line discontinuances (\$3.8 million). Total net after-tax charges for this program are expected to be approximately \$9.4 million (\$4.4 million non-cash), with costs being incurred through early 2010. We expect to spend approximately \$13.4 million in capital expenditures to consolidate operations and will fund approximately \$8.0 million of this amount through proceeds from the sale of buildings and other assets being disposed of as part of the restructuring program. Annual cash savings, net of tax, are estimated to be \$4.5 million, which will be fully realized by the second half of 2009.

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

Reportable Segment	(in millions)
North America	\$ 5.7
Europe	3.9
China	3.3
Total	\$ 12.9

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

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

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

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

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

	Years Ended			% Change to Consolidated Operating Income
	December 31, 2007	December 31, 2006	Change	
	(Dollars in millions)			
North America	\$ 93.3	\$ 98.5	\$ (5.2)	(4.0)%
Europe	53.6	50.0	3.6	2.8
China	7.9	7.2	.7	.5
Corporate	(29.1)	(25.2)	(3.9)	(3.0)
Total	\$ 125.7	\$ 130.5	\$ (4.8)	(3.7)%

The change in operating income is attributable to the following:

						Change As a % of Consolidated Operating Income					Change As a % of Segment Operating Income			
	North America	Europe	China	Corp.	Total	North America	Europe	China	Corp.	Total	North America	Europe	China	Corp.
(Dollars in millions)														
Organic growth	\$ (1.3)	\$.9	\$ (1.5)	\$ (3.9)	\$ (5.8)	(1.0)%	.7%	(1.3)%	(3.0)%	(4.6)%	(1.4)%	1.8%	(20.8)%	(15.5)%
Foreign exchange	.9	4.0	.4	—	5.3	.7	3.1	.3	—	4.1	.9	8.0	5.5	—
Acquisitions	(1.3)	4.8	.8	—	4.3	(1.0)	3.6	.7	—	3.3	(1.3)	9.6	11.1	—
Restructuring/other	(3.5)	(6.1)	1.0	—	(8.6)	(2.7)	(4.6)	.8	—	(6.5)	(3.5)	(12.2)	13.9	—
Total	\$ (5.2)	\$ 3.6	\$.7	\$ (3.9)	\$ (4.8)	(4.0)%	2.8%	.5%	(3.0)%	(3.7)%	(5.3)%	7.2%	9.7%	(15.5)%

The decrease in organic operating income in North America was primarily due to increased material costs partially offset by unit price increases, a net increase in our workers compensation reserve primarily due to a change in estimate and increased product liability costs, partially offset by decreased incentive compensation costs. In 2007, we recorded a charge of \$3.1 million related to our discontinuance of certain product lines and \$0.4 million for primarily for severance costs related to our global restructuring program.

The acquired decrease is primarily due to the amortization of certain costs associated with the acquisition of Topway.

Europe's organic growth in operating income is due to our ability to leverage SG&A expenses, increased selling prices partially offset by increased material costs and a shift in sales to lower margin products primarily in the OEM market. In 2007, we did not record any costs associated with restructuring compared to a gain of \$6.0 million for the same period in 2006. We recorded a gain of \$8.2 million for the building sales in Italy partially offset by \$2.2 million of primarily severance costs.

The acquired growth in Europe is due to the inclusion of the operating income from ATS, Kimsafe and Teknigas.

The decrease in organic operating income in China was primarily attributable to decreased production levels at our wholly owned manufacturing plants. The acquired growth in China was due to the inclusion of the operating income of Changsha and Ningbo. In 2007, we recorded \$3.3 million for asset write-downs, accelerated depreciation and severance related to our global restructuring program and \$0.7 million related to our discontinuance of certain product lines. The elimination of a one-month reporting lag in two of our Chinese entities did not have a material impact on China's operating income.

The decrease in organic operating income in Corporate was primarily attributable to increased stock-based compensation costs and legal costs, partially offset by decreased incentive compensation costs.

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

Interest Income. Interest income increased \$9.5 million, or 190.0%, in 2007 compared to 2006, primarily due to the investment of the net proceeds of approximately \$219.0 million from the public offering of 5.75 million shares of our Class A Common Stock in November 2006.

Interest Expense. Interest expense increased \$4.8 million, or 21.7%, in 2007 compared to 2006, primarily due to our April 27, 2006 issuance of \$225.0 million 5.85% senior notes due in 2016 and an increase in the average variable rates charged on the revolving credit facility partially offset by decreased debt levels for acquisitions.

Effective July 1, 2005, we entered into an interest rate swap for a notional amount of €25.0 million outstanding on our revolving credit facility. We swapped an adjustable rate of three month EURIBOR plus 0.6% for a fixed rate of 3.02%. We recorded a reduction to interest expense of approximately \$0.7 million to recognize the fair value of the swap for 2006. The swap was terminated on October 3, 2006.

Other (Income) Expense. Other (income) expense increased \$3.2 million, or 355.6% in 2007 compared to 2006, primarily due to currency movements and losses on forward currency contracts. Foreign currency losses were recorded in Europe, Canada and China in 2007, whereas foreign currency gains were recorded in 2006.

Minority interest. Minority interest increased \$1.0 million, or 55.6%, for 2007 compared to 2006, primarily due to the credit recorded for the 40% liability of our joint venture partner's share in the recording of the \$2.4 million TWT restructuring costs.

Income Taxes. Our effective tax rate for continuing operations decreased to 31.8% in 2007 from 33.6% in 2006. The decrease is primarily due to a one-time benefit associated with a refund of withholding taxes in Italy and in 2006 the recording of higher taxes on the sale of two buildings. This decrease is partially offset by the recording of a \$3.2 million valuation allowance on the deferred tax assets of our 60% owned Chinese joint venture.

Income From Continuing Operations. Income from continuing operations in 2007 increased \$0.5 million, or 0.6%, to \$77.6 million, or \$1.99 per common share, from \$77.1 million, or \$2.29 per common share, for 2006, in each case, on a diluted basis. Income from continuing operations for 2007 includes a tax refund of \$1.9 million, or \$0.05 per common share. Income from continuing operations for 2007 and 2006 included costs, net of tax, from our restructuring plan and product line discontinuances of \$5.1 million, or \$0.13 per common share, and included income, net of tax, of \$1.5 million, or \$0.04 per share, respectively. In 2006, the gains on the sales of our buildings in Italy resulted in an after-tax gain of \$5.1 million, or \$0.15 per share. The appreciation of the euro, Chinese yuan and Canadian dollar against the U.S. dollar resulted in a positive impact on income from continuing operations of \$0.09 per common share for 2007 compared to the comparable period last year. We cannot predict whether the euro, Canadian dollar or yuan will appreciate or depreciate against the U.S. dollar in future periods or whether future foreign exchange rate fluctuations will have a positive or negative impact on our net income.

Additionally, in November 2006, the Company completed a public offering of 5.75 million shares of Class A Common Stock and received net proceeds of approximately \$219.0 million. The interest earned on the net proceeds provided approximately \$7.1 million in after-tax income in 2007. The issuance of an additional 5.75 million shares had a dilutive impact on earnings per share of \$0.11 per share in 2007, after considering the interest income from the net proceeds.

Loss From Discontinued Operations. Loss from discontinued operations in 2007 and 2006 was \$0.2 million, or \$0.01 per common share, and \$3.4 million, or \$0.10 per common share, on a diluted basis for the comparable period. The losses for 2007 and 2006 were primarily attributable to increased deductible costs in 2006 and legal fees associated with the James Jones Litigation, as described in Part I, Item 1, "Business-Product Liability, Environmental and Other Litigation Matters." The 2007 loss was partially offset by reserve adjustments.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

Net Sales. Our business is reported in three geographic segments: North America, Europe and China. Our net sales in each of these segments for the years ended December 31, 2006 and 2005 were as follows:

	Year Ended December 31, 2006		Year Ended December 31, 2005			Change to Consolidated Net Sales
	Net Sales	% Sales	Net Sales	% Sales	Change	
	(Dollars in millions)					
North America	\$ 821.3	66.7%	\$ 629.9	68.2%	\$ 191.4	20.7%
Europe	367.5	29.9	266.3	28.8	101.2	11.0
China	42.0	3.4	28.1	3.0	13.9	1.5
Total	\$ 1,230.8	100.0%	\$ 924.3	100.0%	\$ 306.5	33.2%

The increase in net sales is attributable to the following:

					Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
	North America	Europe	China	Total	North America	Europe	China	Total	North America	Europe	China
(Dollars in millions)											
Organic growth	\$ 54.0	\$ 45.2	\$ 3.0	\$ 102.2	5.9%	4.9%	.3%	11.1%	8.6%	17.0%	10.6%
Foreign exchange	3.5	7.1	.9	11.5	.3	.8	.1	1.2	.6	2.7	3.0
Acquisitions	133.9	48.9	10.0	192.8	14.5	5.3	1.1	20.9	21.2	18.3	35.9
Total	\$ 191.4	\$ 101.2	\$ 13.9	\$ 306.5	20.7%	11.0%	1.5%	33.2%	30.4%	38.0%	49.5%

The organic growth in net sales in North America was due to increased price and unit sales in certain product lines into both the wholesale and DIY markets. Our wholesale market in 2006, excluding the sales from the acquisitions of Alamo, Savard, Calflex, Flexflow, Core and Dormont, grew by 9.7% compared to 2005, primarily due to increased sales of water pressure regulators, relief valves and 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 2006 increased by 5.4% compared to 2005, primarily due to increased sales of fittings and supply lines and plumbing and under-floor radiant heating product lines partially offset by fewer new retail product introductions in 2006 than during 2005.

The acquired growth in net sales in North America was due to the inclusion of net sales of Alamo, acquired on June 20, 2005, Savard, acquired on July 8, 2005, Flexflow, acquired on November 4, 2005, Core, acquired on December 2, 2005, Dormont, acquired on December 28, 2005, and Calflex acquired on June 2, 2006.

The organic sales growth in Europe was broad-based with most markets and channels exhibiting improvement. Our sales into the wholesale and OEM markets in 2006, excluding the sales from the acquisitions of Electro Controls, Microflex, ATS, Kimsafe and Teknigas, grew by 18.5% and 16.4% respectively, compared to 2005.

The acquired growth in net sales in Europe was due to the inclusion of the net sales of Electro Controls, acquired on May 11, 2005, Microflex, acquired on July 5, 2005, ATS, acquired on May 19, 2006, Kimsafe, acquired on June 7, 2006, and Teknigas, acquired on August 14, 2006.

The organic sales growth in China was due to increased sales into the domestic and export markets, partially offset by decreased sales due to an approximately four- week work stoppage at our joint-venture facility in Tianjin. Additionally, the yuan strengthened against the U.S. dollar.

The acquired growth in net sales in China was due to the inclusion of the net sales of Changsha, acquired on April 26, 2006, and Ningbo, acquired on June 2, 2006.

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

Gross Profit. Gross profit and gross margin for 2006 and 2005 were as follows:

	Year Ended December 31,		Point Change
	2006	2005	
	(dollars in millions)		
Gross profit	\$ 425.0	\$ 324.7	
Gross margin	34.5%	35.1%	(.6%)

Gross margin for 2006 decreased slightly from 2005. Raw materials cost increases have been predominantly offset by increased sales prices with the exception of the North American retail market and certain markets in Europe. In particular, price increases have been difficult to pass along to customers in Germany. Margins have also been negatively affected by sales of lower margin products sold by Core and by European acquisition costs. North American gross margin percentage decreases were partially offset by a favorable sales mix toward higher margin wholesale sales.

Margins were also negatively affected in 2006 by increased charges related to our manufacturing restructuring efforts. We recorded \$4.7 million to cost of sales for primarily severance costs in 2006 as compared to \$1.8 million in 2005 for accelerated depreciation and other costs.

Selling, General and Administrative Expenses. Selling, general and administrative expenses, or SG&A expenses, for 2006 increased \$70.8 million, or 30.8%, compared to 2005. The increase in SG&A expenses is attributable to the following:

	(in millions)	% Change
Organic growth	\$ 24.6	10.7%
Foreign exchange	2.1	.9
Acquisitions	44.1	19.2
Total	\$ 70.8	30.8%

The organic increase in SG&A expenses was primarily due to increased variable selling expenses due to increased sales volumes, increased insurance costs, increased compensation costs and corporate administration costs including costs incurred for compliance with FAS 123R, partially offset by lower costs for complying with Section 404 of the Sarbanes-Oxley Act of 2002 (SOX) and lower earn-out costs related to a prior acquisition. The increase in SG&A expenses from foreign exchange was primarily due to the appreciation of the euro, Canadian dollar and yuan against the U.S. dollar. The increase in SG&A expenses from acquisitions was due to the inclusion of Electro Controls, Alamo, Microflex, Savard, Flexflow, Core, Dormont, Changsha, ATS, Calflex, Ningbo, Kimsafe and Teknigas.

Restructuring and Other (Income) Charges. Restructuring and other (income) charges for 2006 decreased \$6.4 million primarily due to a gain of approximately \$8.2 million related to the sale of two buildings in Italy partially offset by a charge of \$2.5 million primarily for severance costs related to our European restructuring plans. During 2005, we recorded \$0.7 million primarily for severance costs related to our European restructuring plans.

Operating Income. Operating income by geographic segment for 2006 and 2005 was as follows:

	Years Ended			% Change to Consolidated Operating Income
	December 31, 2006	December 31, 2005	Change	
	(Dollars in millions)			
North America	\$ 98.5	\$ 79.1	\$ 19.4	20.6%
Europe	50.0	31.5	18.5	19.5
China	7.2	3.5	3.7	3.8
Corporate	(25.2)	(19.5)	(5.7)	(5.9)
Total	\$ 130.5	\$ 94.6	\$ 35.9	38.0%

The change in operating income is attributable to the following:

	Change As a % of Consolidated Operating Income					Change As a % of Segment Operating Income			
	North America	Europe	China	Corp.	Total	North America	Europe	China	Corp.
	(Dollars in millions)								
Organic growth	\$ 6.4	\$ 7.5	\$ 6.8	\$ (5.7)	\$ 15.0	6.9%	7.8%	7.1%	(5.9)%
Foreign exchange	.8	.9	.3	—	2.0	.8	1.0	.3	—
Acquisitions	11.2	2.5	1.7	—	15.4	11.8	2.7	1.8	—
Restructuring/other	1.0	7.6	(5.1)	—	3.5	1.1	8.0	(5.4)	—
Total	\$ 19.4	\$ 18.5	\$ 3.7	\$ (5.7)	\$ 35.9	20.6%	19.5%	3.8%	(5.9)%

The organic growth in North America was primarily due to our increased gross profit from price increases and a favorable sales mix towards the wholesale market, benefits resulting from our completed manufacturing restructuring projects and product outsourcing, partially offset by increased net SG&A expense and inventory write-downs. In 2006, we did not record any costs associated with our manufacturing restructuring plan compared to costs of \$1.0 million for 2005. The acquired growth was due to the inclusion of operating income from Alamo, Savard, Flexflow, Core, Dormont and Calflex.

The organic growth in Europe was primarily due to increased gross profit from price and unit increases in the wholesale and OEM markets and benefits resulting from our completed manufacturing restructuring projects, partially offset by increased net SG&A expense. In 2006, we recorded a net gain of \$6.0 million associated with our manufacturing restructuring plan compared to a charge of \$1.5 million for 2005. We recorded a gain of \$8.2 million for the building sales in Italy partially offset by \$2.2 million primarily for severance costs. The acquired growth in Europe was due to the inclusion of the operating income from Electro Controls, Microflex, ATS, Kimsafe and Teknigas.

The increase in organic growth in China was attributable to sales volume increase, favorable material purchases and improved manufacturing efficiencies associated with our wholly owned manufacturing plants, partially offset by increased net SG&A expense. The acquired growth in China was due to the inclusion of the operating income from Changsha and Ningbo. In 2006, we recorded \$5.1 million of severance and accelerated depreciation costs associated with the planned move of our Chinese joint venture facility. We did not record any costs associated with our manufacturing restructuring plan in 2005.

The decrease in organic operating income in Corporate was primarily attributable to incremental administration charges for variable compensation including costs incurred for compliance with FAS 123R, increased audit costs and increased pension costs, partially offset by lower costs incurred for SOX compliance.

The net increase in operating income from foreign exchange was primarily due to the appreciation of the euro, Canadian dollar and yuan against the U.S. dollar.

Interest Income. Interest income increased \$3.8 million, or 307.0%, for 2006 compared to 2005, primarily due to the investment of the residual proceeds from the private placement of \$225.0 million 5.85% senior notes in April 2006 and the net proceeds from the public offering of 5.75 million shares of our Class A Common Stock in November 2006.

Interest Expense. Interest expense increased \$11.7 million, or 113.9%, for 2006 compared to 2005, primarily due to interest expense associated with our \$225.0 million 5.85% senior notes, increased debt levels for acquisitions made in 2005 and 2006, and an increase in the average variable rates charged on the revolving credit facility.

Effective July 1, 2005, we entered into an interest rate swap for a notional amount of €25.0 million outstanding on our revolving credit facility. We swapped an adjustable rate of three month EURIBOR plus 0.6% for a fixed rate of 3.02%. We recorded a reduction to interest expense of approximately \$0.7 million to recognize the fair value of the swap for 2006. The swap was terminated on October 3, 2006.

Other (Income) Expense. Other (income) expense increased \$0.2 million, or 27.6%, for 2006 compared to 2005, primarily due to the gains on settlements of officers' life insurance policies.

Minority interest. Minority interest increased \$2.1 million, or 622.3%, for 2006 compared to 2005, primarily due to the credit recorded for the 40% liability of our joint venture partner's share in the recording of the \$5.1 million manufacturing restructuring costs.

Income Taxes. Our effective tax rate for continuing operations decreased to 33.6% in 2006 from 35.9% in 2005. The decrease is primarily due to higher earnings in our European and China segments. The shift in the mix of earnings to these segments causes our rate to decrease as these segments have lower effective tax rates than our worldwide average. The effect of the European earnings mix is partially offset by a higher effective tax from the gain on the sales of our Italian facilities. We were able to claim tax credits based on qualified fixed asset purchases in China that helped reduce the worldwide rate.

Income From Continuing Operations. Income from continuing operations for 2006 increased \$22.1 million, or 40.1%, to \$77.1 million, or \$2.29 per common share, from \$55.0 million, or \$1.67 per common share, for 2005, in each case, on a diluted basis. Income from continuing operations for 2006 and 2005 includes income, net of tax, for our restructuring plan of \$1.5 million, or \$0.04 per share, and costs of \$1.6 million, or (\$0.05) per share, respectively. The gains on the sales of our buildings in Italy resulted in an after-tax gain of \$5.1 million, or \$0.15 per share. The appreciation of the Canadian dollar, euro and Chinese yuan against the U.S. dollar resulted in a positive impact on income from continuing operations of \$1.3 million, or \$0.04 per share, for 2006 compared to 2005.

Loss From Discontinued Operations We recorded a charge, net of tax, to discontinued operations for 2006 and 2005 of \$3.4 million, or (\$0.10) per common share, and \$0.4 million, or (\$0.01) per common share, respectively, in each case, on a diluted basis. In the third quarter of 2006, we recorded a pre-tax charge of \$5.0 million due to a recent federal appellate court decision which affirmed that an arbitration panel could decide which deductible agreements between Watts and Zurich American Insurance Company (Zurich) would control Zurich's reimbursement claim for defense costs paid in the James Jones case. Other charges were 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."

Liquidity and Capital Resources

We generated \$91.7 million of cash from continuing operations in 2007. We experienced increases in inventory in North America and China. The increases were primarily due to increased raw material costs. There was also a decrease in accounts payable, accrued expenses and other liabilities, primarily in Europe and North America. In Europe, accounts payable declined in 2007 due to a decline in

inventory. In North America, payments for cash compensation increased in 2007. Also, cash payments to cover income tax obligations were greater during 2007. Accounts receivable decreased in all three segments.

We used \$87.4 million of net cash for investing activities in 2007. We invested \$37.8 million in capital equipment as part of our ongoing commitment to improve our manufacturing capabilities. We invested \$27.5 million in investment grade auction rate securities. We used \$18.1 million to fund the acquisitions of Topway. We paid \$4.5 million for additional acquisition costs related to prior years acquisitions. We expect to invest approximately \$35.0 in capital equipment in 2008.

Recent distress in the markets has had an adverse impact on market activities including, among other things, volatility in security prices, diminished liquidity, rating downgrades of certain investments and declining valuations of others. We have assessed the implications of these factors on our current business and determined that there has not been a significant impact to our financial position, results of operations or liquidity during 2007.

We used \$66.5 million of net cash from financing activities in 2007. This was primarily due to payments of debt, payments for our stock repurchase program and dividend payments, partially offset by increased borrowings under our line of credit and tax benefits from the exercise of stock awards.

In April 2006, we amended our revolving credit facility with a syndicate of banks to provide for multi-currency unsecured borrowings and stand-by letters of credit of up to \$350.0 million and to extend the maturity date through April 2011. 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 our debt rating, depending on the applicable base rate and our bond rating. For 2007 the average interest rate under the revolving credit facility for euro-based borrowings was approximately 4.6%. There were no U.S. dollar borrowings at December 31, 2007. The revolving credit facility includes operational and financial covenants customary for facilities of this type, including, among others, restrictions on additional indebtedness, liens and investments and maintenance of certain leverage ratios. As of December 31, 2007, we were in compliance with all covenants related to the revolving credit facility, had \$234.4 million of unused and potentially available credit under the revolving credit facility and had \$81.8 million of euro-based borrowings outstanding and \$33.8 million for stand-by letters of credit outstanding on our revolving credit facility.

We generated \$0.1 million of net cash from discontinued operations in 2007. We paid approximately \$0.5 million for defense costs and approximately \$0.5 million for other legal costs we incurred in the James Jones Litigation. We also received \$1.0 million for indemnity payments.

Working capital (defined as current assets less current liabilities) as of December 31, 2007 was \$667.0 million compared to \$653.0 million as of December 31, 2006. This increase was primarily due to an increase in inventories and lower accounts payable, partially offset by an increase in accrued expenses. Cash and cash equivalents decreased to \$290.3 million as of December 31, 2007 compared to \$343.0 million as of December 31, 2006 primarily due to cash used to repurchase stock, fund capital expenditures and investments. The ratio of current assets to current liabilities was 3.3 to 1 as of December 31, 2007 compared to 3.2 to 1 as of December 31, 2006.

We generated \$83.0 million of cash from continuing operations for 2006. We experienced an increase in inventory and accounts receivable in North America, Europe and China. The increase in accounts receivable of \$17.0 million was primarily due to increased sales volume and selling prices. The increase in inventory of \$37.3 million was primarily due to increased cost of raw materials and planned increases in European safety stocks. The increase in inventory and accounts receivable was partially offset by increased accounts payable, accrued expenses and other liabilities of \$29.5 million.

We used \$119.2 million of net cash for investing activities in 2006. We used \$91.1 million to fund the acquisitions of Changsha, ATS, Calflex and Ningbo, Kimsafe and Teknigas, \$1.9 million in

additional costs related to 2005 acquisitions and \$0.4 million to complete the planned increase of our ownership in Stern. We invested \$11.8 million in investment grade auction rate securities and \$44.7 million in capital equipment. Capital expenditures consisted of approximately \$26.7 million for manufacturing machinery and equipment and approximately \$18.0 million for the purchase of land and a building and for infrastructure improvements for a site in Italy. We subsequently entered into a sale-leaseback transaction with respect to the building. We received proceeds of \$31.9 million, which primarily included \$16.0 million related to the sale-leaseback in Italy and \$13.4 million from the sales of two facilities in northern Italy. We also received proceeds from two buildings held for sale, totaling approximately \$2.5 million during 2006.

We generated \$331.3 million of net cash from financing activities for 2006. On November 21, 2006, we completed a public offering of 5.75 million shares of newly issued Class A Common Stock at \$40.00 per share. Net proceeds were approximately \$218.6 million after taking into account underwriting discounts and expenses associated with the transaction. Additionally, we generated cash through the completion of our \$225.0 million private placement of 5.85% notes in April 2006, increased borrowings under our line of credit for use in Europe and proceeds from the exercise of stock options, partially offset by payments of debt, dividend payments and debt issue costs.

We generated \$0.9 million of net cash by operations from discontinued operations in 2006. We also received approximately \$2.8 million in cash for reimbursement of defense costs related to the James Jones Litigation. During 2006, we paid approximately \$0.6 million for defense costs and approximately \$0.5 million for indemnity costs we incurred in the James Jones Litigation.

We generated \$53.1 million of cash from continuing operations in 2005. We experienced an increase in accounts receivable in North America, Europe and China totaling \$16.5 million. This increase is primarily due to increased sales volume. Additionally, we experienced an increase in inventories in North America, Europe and China totaling \$20.3 million. A portion of the overall increase in inventory is due to the increased costs of raw materials. The increase in inventory in Europe is primarily due to increased finished goods to support the delivery requirements of OEM customers in Europe and an increase in safety stocks during restructuring. North American and China inventories increased primarily due to the incremental volume of products being sourced from our extended China supply chain. The increase in inventory and accounts receivable was partially offset by increased accounts payable of approximately \$14.3 million.

We used \$183.2 million of net cash for investing activities in 2005. We used \$191.4 million to fund the acquisitions of Dormont, Core, Flexflow, Savard, Microflex, Alamo, Electro Controls, HF and Sea Tech. We also invested \$18.6 million in capital equipment. We generated \$26.6 million by the sale of investment securities.

We generated \$111.7 million of net cash from financing activities in 2005 primarily from increased borrowings in the U.S. and Europe for acquisitions and proceeds from the exercise of stock options, offset by dividend payments and payments of debt. We paid \$3.8 million of debt owed to the former shareholders of Hunter Innovations.

We used \$1.1 million of net cash for discontinued operations in 2005. We received approximately \$0.5 million in cash as a settlement payment for indemnification costs we incurred in the James Jones case. An offsetting liability has been recorded at December 31, 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 \$2.1 million in cash for reimbursement of defense costs related to the James Jones case. During 2005, we paid approximately \$2.5 million for defense costs, \$0.6 million for legal costs and approximately \$1.0 million for indemnity costs we incurred in the James Jones case.

We had free cash flow of \$54.5 million (a non-GAAP financial measure defined as net cash provided by continuing operations minus capital expenditures plus proceeds from sale of assets) during the year ended December 31, 2007 versus free cash flow of \$70.2 million in 2006. This decrease in 2007 compared to 2006 was primarily due to the proceeds from the sale of property, plant and equipment in

2006 partially offset by growth in cash generated by operations. Our net debt to capitalization ratio (defined as short and long-term interest-bearing liabilities less cash and cash equivalents as a percentage of the sum of short and long term interest-bearing liabilities less cash and cash equivalents plus total stockholders' equity) increased to 13.5% for 2007 from 11.4% for 2006. The increase resulted from an increase in net debt, partially offset by an increase in stockholders' equity.

We had free cash flow of \$70.2 million during the year ended December 31, 2006 versus free cash flow of \$35.2 million in 2005. This increase in 2006 compared to 2005 was primarily due to growth in cash generated by operations, less net capital expenditures.

We believe free cash flow to be an appropriate supplemental measure of our operating performance because it provides investors with a measure of our ability to generate cash, to repay debt and to fund acquisitions. We may not be comparable to other companies that may define free cash flow differently. Free cash flow does not represent cash generated from operating activities in accordance with GAAP. Therefore it should not be considered an alternative to net cash provided by operations as an indication of our performance. Free cash flow should also not be considered an alternative to net cash provided by operations as defined by GAAP.

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

	Years Ended December 31,		
	2007	2006	2005
	(in millions)		
Net cash provided by continuing operations	\$ 91.7	\$ 83.0	\$ 53.1
Less: additions to property, plant, and equipment	(37.8)	(44.7)	(18.6)
Plus: proceeds from the sale of property, plant, and equipment	.6	31.9	.7
Free cash flow	\$ 54.5	\$ 70.2	\$ 35.2

Our net debt to capitalization ratio is also a non-GAAP financial measure used by management. Management believes it to be an appropriate supplemental measure because it helps investors understand our ability to meet our financing needs and as a basis to evaluate our financial structure. Our computation may not be comparable to other companies that may define net debt to capitalization differently.

A reconciliation of long-term debt (including current portion) to net debt and our net debt to capitalization ratio is provided below:

	December 31,	
	2007	2006
	(in millions)	
Current portion of long-term debt	\$ 1.3	\$ 7.5
Plus: long-term debt, net of current portion	432.2	441.7
Less: cash and cash equivalents	(290.3)	(343.0)
Net debt	\$ 143.2	\$ 106.2

A reconciliation of capitalization is provided below:

	December 31,	
	2007	2006
	(in millions)	
Net debt	\$ 143.2	\$ 106.2
Total stockholders' equity	915.5	826.6
Capitalization	\$ 1,058.7	\$ 932.8
Net debt to capitalization ratio	13.5%	11.4%

We anticipate that available funds from current operations, existing cash, our revolving credit facility 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 contractual obligations as of December 31, 2007 are presented in the following table:

Contractual Obligations	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(in millions)				
Long-term debt obligations, including current maturities(a)	\$ 433.5	\$ 1.3	\$ 50.4	\$ 81.8	\$ 300.0
Operating lease obligations	22.2	7.4	9.0	3.6	2.2
Capital lease obligations(a)	16.7	1.4	2.8	2.8	9.7
Pension contributions	9.4	.5	.2	.1	8.6
Interest(b)	159.5	25.7	47.5	36.6	49.7
Earnout payments(a)	3.8	3.8	—	—	—
Other(c)	23.0	20.7	.7	.9	.7
Total	\$ 668.1	\$ 60.8	\$ 110.6	\$ 125.8	\$ 370.9

(a) as recognized in the consolidated balance sheet

(b) assumes the balance on the revolving credit facility remains at \$81.8 million and the interest rate remains at approximately 5.4% for the presented periods

(c) includes commodity, capital expenditure commitments and other benefits at December 31, 2007

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 \$45.0 million as of December 31, 2007 and \$49.6 million as of December 31, 2006. 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. These instruments may exist or expire without being drawn down, therefore they do not necessarily represent future cash flow obligations.

During the period January 1, 2008 to February 22, 2008, we repurchased 1.4 million shares of our Class A Common Stock for a total cost of \$38.2 million. As of February 22, 2008, 0.8 million shares remain to be repurchased under the November 2007 stock repurchase program. Although we are under no obligation to repurchase these shares, we estimate that the total cost to repurchase the remaining 0.8 million shares would be approximately \$20.0 million.

Off-Balance Sheet Arrangements

Except for operating lease commitments, we have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial

condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

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. Except for the net increase in workers compensation reserves in the second quarter of 2007 primarily due to a change in estimate, there were no changes in accounting policies or significant changes in accounting estimates during 2007.

We periodically discuss the development, selection and disclosure of the estimates with our 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 estimated reductions to revenue, made at the time of sale, for customer programs based on estimated purchase targets.

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. In China, management specifically analyzes individual accounts receivable and establishes specific reserves as needed. In addition, for waterworks customers, whose payment terms are generally extended, we reserve the majority of 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 creditworthiness 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 determined primarily 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 four 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 shrinkage 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

Goodwill and intangible assets with indefinite lives are tested annually for impairment in accordance with the provisions of Financial Accounting Standards Board Statement No. 142 "Goodwill and Other Intangible Assets" (FAS 142). We use our judgment in assessing whether assets may have become impaired between annual impairment tests. We concluded that no impairment existed at October 28, 2007, the time of our latest annual review. We perform our annual test for indicators of goodwill and non-amortizable intangible assets impairment in the fourth quarter of our fiscal year or sooner if indicators of impairment exist.

Intangible assets such as purchased technology are generally recorded in connection with a business acquisition. Values assigned to intangible assets are determined by an independent valuation firm based on estimates and judgments regarding expectations of the success and life cycle of products and technology acquired.

Since the adoption of FAS 142 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 loss reports provided by our third-party administrators as well as developing internal historical trend factors based on our specific claims experience. Management utilizes the internal trend factors that 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. Because the liability is an estimate, the ultimate liability may be more or less than reported.

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 determine the trend factors for product liability and workers' compensation liabilities based on consultation with outside actuaries.

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 Part I, Item 1, "Business—Product Liability, Environmental and Other Litigation Matters." 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) and Financial Accounting Standards Board Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," (FAS 158). In applying FAS 87 and FAS 158, 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 these 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 affect the effective rate for the year. Management periodically reviews these rates with outside tax advisors and changes are made if material variances 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.

On January 1, 2007, we adopted the provisions of Financial Accounting Standards Board (FASB) Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). The purpose of FIN 48 is to increase the comparability in financial reporting of income taxes. FIN 48 requires that in order for a tax benefit to be booked in the income statement, the item in question must meet the more-likely-than-not (greater than 50% likelihood of being sustained upon examination by the taxing authorities) threshold. The adoption of FIN 48 did not have a material effect on our financial statements. No cumulative effect was booked through beginning retained earnings.

As of the adoption date, we had gross unrecognized tax benefits of approximately \$4.8 million, of which, approximately \$4.2 million, if recognized, would affect the effective tax rate. The difference between the amount of unrecognized tax benefits and the amount that would affect the effective tax rate consists of the federal tax benefit of state income tax items. During 2007, we reduced our unrecognized tax benefits by approximately \$0.6 million for a tax issue in Italy. As a result of the conclusion of state income tax audits, it is reasonably possible that the total amount of unrecognized tax benefits will change in the next twelve months. We estimate that it is reasonably possible that approximately \$0.5 million of the currently remaining unrecognized tax benefit may be recognized by the end of 2008 as a result of the conclusion of the audits. Notwithstanding, we do not expect any further significant changes in the amounts of unrecognized tax benefits within the next twelve months.

As of December 31, 2007, we had gross unrecognized tax benefits of approximately \$3.7 million, of which approximately \$3.2 million, if recognized, would affect the effective tax rate. The difference between the amount of unrecognized tax benefits and the amount that would impact the effective tax rate consists of the federal tax benefit of state income tax items.

New Accounting Standards

In December 2007, the FASB issued Financial Accounting Standards Board Statement (FAS) No. 141 (R)," Business Combinations," (FAS 141R), which requires most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination to be recorded at "full fair value." Under FAS 141R, all business combinations will be accounted for under the acquisition method. Significant changes, among others, from current guidance resulting from FAS 141R includes the requirement that contingent assets and liabilities and contingent consideration shall be recorded at estimated fair value as of the acquisition date, with any subsequent changes in fair value charged or credited to earnings. Further, acquisition-related costs will be expensed rather than treated as part of the acquisition. FAS 141R is effective for periods beginning on or after December 15, 2008. We expect the adoption of FAS 141R will increase costs charged to operations.

In December 2007, the FASB issued FAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB NO. 151," (FAS 160), which requires non-controlling interests (previously referred to as minority interest) to be treated as a separate component of equity, not as a liability as is current practice. FAS 160 applies to non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. FAS 160 is effective for periods beginning on or after December 15, 2008. We are currently evaluating the effect that FAS 160 will have on our consolidated financial statements.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an Amendment to FAS No. 115," (FAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged. We do not expect to measure our financial instruments at fair value and therefore we do not expect the adoption of FAS 159 to have a material impact on our consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The impact of SAB 108 was not material to our consolidated financial statements.

In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (FAS 158), which requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes are reported in other comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006 for companies with publicly traded equity securities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008, although earlier adoption is permitted. As a result of the requirement to recognize the funded status of our benefit plans as of December 31, 2006, we recorded an increase in our pension liability of approximately \$8.3 million, a decrease of approximately \$1.3 million in other assets: other, net and a decrease in accumulated other comprehensive income of approximately \$5.8 million, net of tax. We have early-adopted the measurement date provisions of FAS 158 effective January 1, 2007. Our pension plans previously used a September 30 measurement date. All plans are now measured as of December 31, consistent with our fiscal year end. The non-cash effect of the adoption of the measurement date provisions of FAS 158 was not material and there was no effect on our results of operations.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements" (FAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. For financial assets and liabilities, FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. For non-financial assets and liabilities, FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Earlier application is encouraged provided that the reporting company has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. We do not expect the adoption of FAS 157 will have a material impact on our consolidated financial statements.

In July 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, based on the technical merits. This interpretation also provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. We adopted the provisions of FIN 48 as of January 1, 2007 and the impact was not material to our consolidated financial statements.

In March 2006, the FASB issued FAS No. 156, "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140" (FAS 156). FAS 156 amends FAS Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. FAS 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. We adopted FAS 156 as of January 1, 2007 and the impact was not material to our consolidated financial statements.

In February 2006, the FASB issued FAS No. 155, "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" (FAS 155). FAS 155 amends FAS 133, "Accounting for Derivatives and Hedging Activities," and FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. We adopted FAS 155 as of January 1, 2007 and the impact was not material to our consolidated financial statements.

In May 2005, the FASB issued FAS No. 154, "Accounting Changes and Error Correction Replacement of APB Opinion No. 20 and FASB Statement No. 3" (FAS 154). FAS 154 replaces APB Opinion No. 20, "Accounting Changes" (APB 20), and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. APB 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle. FAS 154 defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used. FAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. The impact of FAS 154 was not material to our consolidated financial statements.

In December 2004, the FASB issued FAS 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 impact of FAS 153 was not material to our consolidated financial statements.

In November 2004, the FASB issued FAS 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 for fiscal years beginning after June 15, 2005. The impact of FAS 151 was not material to our consolidated financial statements.

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

We use derivative financial instruments primarily to reduce exposure to adverse fluctuations in foreign exchange rates, interest rates and 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 yuan.

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 2007, the amounts recorded in other income for the change in the fair value of such contracts was immaterial.

We have historically had a low exposure on the cost of our debt to changes in interest rates. 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, 2007.

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.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements listed in section (a) (1) of "Part IV, Item 15. Exhibits and Financial Statement Schedules" of this annual report are incorporated herein by reference.

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

None.

Item 9A. 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 our 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 applies its judgment in evaluating and implementing possible controls and procedures. The effectiveness of our disclosure controls and procedures is also necessarily limited by the staff and other resources available to us and the geographic diversity of our operations. 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 and are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act are accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2007, 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 control over 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.

Management's Annual Report on Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed 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. The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework.

Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2007.

The audited consolidated financial statements of the Company include the results of Topway Global Inc., which the Company acquired on November 9, 2007, but management's assessment does not include an assessment of the internal control over financial reporting of this entity.

The independent registered public accounting firm that audited the Company's consolidated financial statements included elsewhere in this Annual Report on Form 10-K has issued an attestation report on the Company's internal control over financial reporting. That report appears immediately following this report.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Watts Water Technologies, Inc.:

We have audited Watts Water Technologies, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Watts Water Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, included in the accompanying *Management's Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Watts Water Technologies, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Watts Water Technologies, Inc. acquired Topway Global Inc. during 2007 (the 2007 acquisition). Management excluded from its assessment of internal control over financial reporting, the 2007 acquisition representing consolidated total assets of \$19 million and consolidated revenues of \$2 million included in the consolidated financial statements of Watts Water Technologies, Inc. as of and for the year ended December 31, 2007. Our audit of internal control over financial reporting of Watts Water Technologies, Inc. also excluded an evaluation of the internal control over financial reporting of the 2007 acquisition.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Watts Water Technologies, Inc. as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and the

related financial statement schedule, and our report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule.

KPMG LLP

Boston, Massachusetts
February 29, 2008

Item 9B. OTHER INFORMATION.

None.

PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information with respect to the executive officers of the Company is set forth in Part I, Item 1 of this Report under the caption "Executive Officers and Directors" and is incorporated herein by reference. The information provided under the captions "Information as to Nominees for Director," "Corporate Governance," and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement for our 2008 Annual Meeting of Stockholders to be held on May 14, 2008 is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics applicable to all officers, employees and Board members. The Code of Business Conduct and Ethics is posted in the Investor Relations section of our website, www.wattswater.com. We will provide you with a print copy of our Code of Business Conduct and Ethics free of charge on written request to Lester J. Taufen, Secretary, Watts Water Technologies, Inc., 815 Chestnut Street, North Andover, MA 01845. Any amendments to, or waivers of, the Code of Business Conduct and Ethics which apply to our chief executive officer, chief financial officer, corporate controller or any person performing similar functions will be disclosed on our website promptly following the date of such amendment or waiver.

Item 11. EXECUTIVE COMPENSATION.

The information provided under the captions "Director Compensation," "Corporate Governance," "Compensation Discussion and Analysis," "Executive Compensation," "Compensation Committee Interlocks and Insider Participation," and "Compensation Committee Report" in our definitive Proxy Statement for our 2008 Annual Meeting of Stockholders to be held on May 14, 2008 is incorporated herein by reference.

The "Compensation Committee Report" contained in our Proxy Statement shall not be deemed "soliciting material" or "filed" with the Securities and Exchange Commission or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate such information by reference into a document filed under the Securities Act or Exchange Act.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information appearing under the caption "Principal Stockholders" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 14, 2008 is incorporated herein by reference.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2007, about the shares of Class A Common Stock that may be issued upon the exercise of stock options issued under the Company's 2004 Stock Incentive Plan, 1991 Directors' Non-Qualified Stock Option Plan, 1996 Stock Option Plan and 2003 Non-Employee Directors' Stock Option Plan and the settlement of restricted stock units granted

under our Management Stock Purchase Plan as well as the number of shares remaining for future issuance under our 2004 Stock Incentive Plan and Management Stock Purchase Plan.

Plan Category	Equity Compensation Plan Information		Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a)) (c)
	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	
Equity compensation plans approved by security holders	1,533,767(1)	\$ 24.64	3,078,132(2)
Equity compensation plans not approved by security holders	None	None	None
Total	1,533,767(1)	\$ 24.64	3,078,132(2)

(1) Represents 1,168,233 outstanding options under the 1991 Directors' Non-Qualified Stock Option Plan, 1996 Incentive Stock Option Plan, 2003 Non-Employee Directors' Stock Option Plan and 2004 Stock Incentive Plan, and 365,534 outstanding restricted stock units under the Management Stock Purchase Plan.

(2) Includes 2,074,517 shares available for future issuance under the 2004 Stock Incentive Plan, and 1,003,615 shares available for future issuance under the Management Stock Purchase Plan.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

The information provided under the captions "Corporate Governance" and "Policies and Procedures for Related Person Transactions" in our definitive Proxy Statement for our 2008 Annual Meeting of Stockholders to be held on May 14, 2008 is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information provided under the caption "Ratification of Independent Registered Public Accounting Firm" in our definitive Proxy Statement for our 2008 Annual Meeting of Stockholders to be held on May 14, 2008 is incorporated herein by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1) Financial Statements

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

Report of Independent Registered Public Accounting Firm	59
Consolidated Statements of Operations for the years ended December 31, 2007, 2006 and 2005	60
Consolidated Balance Sheets as of December 31, 2007 and 2006	61
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005	62
Consolidated Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005	63
Notes to Consolidated Financial Statements	64 - 101

(a)(2) Schedules

Schedule II—Valuation and Qualifying Accounts for the years ended December 31, 2007, 2006 and 2005	102
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All other required schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are included in the Notes to the Consolidated Financial Statements.

(a)(3) Exhibits

The exhibits listed in the Exhibit Index immediately preceding the exhibits are filed as part of this Annual Report on Form 10-K.

SIGNATURES

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

WATTS WATER TECHNOLOGIES, INC.

By: **/S/ PATRICK S. O'KEEFE**

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

DATED: February 29, 2008

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

Signature	Title	Date
/S/ PATRICK S. O'KEEFE Patrick S. O'Keefe	Chief Executive Officer, President and Director	February 29, 2008
/S/ WILLIAM C. MCCARTNEY William C. McCartney	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 29, 2008
/S/ TIMOTHY P. HORNE Timothy P. Horne	Director	February 29, 2008
/S/ ROBERT L. AYERS Robert L. Ayers	Director	February 29, 2008
/S/ RICHARD J. CATHCART Richard J. Cathcart.	Director	February 29, 2008
/S/ RALPH E. JACKSON, JR. Ralph E. Jackson, Jr.	Director	February 29, 2008
/S/ KENNETH J. MCAVOY Kenneth J. McAvoy	Director	February 29, 2008

/S/ JOHN K. MCGILlicuddy John K. McGillicuddy	Director	February 29, 2008
/S/ GORDON W. MORAN	Chairman of the Board	February 29, 2008

Gordon W. Moran

/S/ DANIEL J. MURPHY, III

Director

February 29, 2008

Daniel J. Murphy, III

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Watts Water Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Watts Water Technologies, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watts Water Technologies, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, Watts Water Technologies, Inc. adopted Statement of Financial Accounting Standard No. 123(R), "Share Based Payment" effective January 1, 2006, utilizing the modified prospective application transition method.

Also, as discussed in Note 2 to the consolidated financial statements, Watts Water Technologies, Inc. adopted the recognition and disclosure provisions of Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" effective December 31, 2006 and its measurement date provisions on January 1, 2007.

Also, as discussed in Note 2 to the consolidated financial statements, Watts Water Technologies, Inc. adopted Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" effective January 1, 2007.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Watts Water Technologies, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 29, 2008, expressed an unqualified opinion on the effective operation of internal control over financial reporting.

KPMG LLP

Boston, Massachusetts
February 29, 2008

Watts Water Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations

(Amounts in millions, except per share information)

	Years Ended December 31,		
	2007	2006	2005
Net sales	\$ 1,382.3	\$ 1,230.8	\$ 924.3
Cost of goods sold	920.7	805.8	599.6
GROSS PROFIT	461.6	425.0	324.7
Selling, general and administrative expenses	332.7	300.2	229.4
Restructuring and other (income) charges	3.2	(5.7)	.7
OPERATING INCOME	125.7	130.5	94.6
Other (income) expense:			
Interest income	(14.5)	(5.0)	(1.2)
Interest expense	26.9	22.1	10.4
Minority interest	(2.8)	(1.8)	.3
Other	2.3	(.9)	(.7)
	11.9	14.4	8.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	113.8	116.1	85.8
Provision for income taxes	36.2	39.0	30.8
INCOME FROM CONTINUING OPERATIONS	77.6	77.1	55.0
Loss from discontinued operations, net of taxes of \$0.2 in 2007, \$2.1 in 2006 and \$0.3 in 2005	(.2)	(3.4)	(.4)
NET INCOME	\$ 77.4	\$ 73.7	\$ 54.6
Basic EPS			
Income (loss) per share:			
Continuing operations	\$ 2.01	\$ 2.32	\$ 1.69
Discontinued operations	(.01)	(.10)	(.01)
NET INCOME	\$ 2.00	\$ 2.21	\$ 1.68
Weighted average number of shares	38.6	33.3	32.5
Diluted EPS			
Income (loss) per share:			
Continuing operations	\$ 1.99	\$ 2.29	\$ 1.67
Discontinued operations	(.01)	(.10)	(.01)
NET INCOME	\$ 1.99	\$ 2.19	\$ 1.66
Weighted average number of shares	39.0	33.7	33.0
Dividends per share	\$.40	\$.36	\$.32

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

Watts Water Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets

(Amounts in millions, except share information)

	December 31,	
	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 290.3	\$ 343.0
Short-term investment securities	22.0	11.8
Trade accounts receivable, less allowance for doubtful accounts of \$14.9 million in 2007 and \$10.5 million in 2006	235.7	228.5
Inventories, net	341.6	316.4
Prepaid expenses and other assets	18.6	15.9
Deferred income taxes	38.1	26.7
Assets of discontinued operations	10.4	10.1
Total Current Assets	956.7	952.4
PROPERTY, PLANT AND EQUIPMENT, NET	223.7	206.2
OTHER ASSETS:		
Goodwill	385.8	356.1
Long-term investment securities	17.0	—
Other, net	146.1	146.2
TOTAL ASSETS	\$ 1,729.3	\$ 1,660.9
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 108.0	\$ 121.0
Accrued expenses and other liabilities	113.6	100.4
Accrued compensation and benefits	38.2	42.6
Current portion of long-term debt	1.3	7.5
Liabilities of discontinued operations	28.6	27.9
Total Current Liabilities	289.7	299.4
LONG-TERM DEBT, NET OF CURRENT PORTION	432.2	441.7
DEFERRED INCOME TAXES	42.9	34.5
OTHER NONCURRENT LIABILITIES	45.6	52.7
MINORITY INTEREST	3.4	6.0
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$0.10 par value; 5,000,000 shares authorized; no shares issued or outstanding	—	—
Class A Common Stock, \$0.10 par value; 80,000,000 shares authorized; 1 vote per share; issued and outstanding, 30,600,056 shares in 2007 and 31,239,111 shares in 2006	3.1	3.1
Class B Common Stock, \$0.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding, 7,293,880 shares in 2007 and in 2006	.7	.7
Additional paid-in capital	377.6	367.8
Retained earnings	465.4	429.6
Accumulated other comprehensive income	68.7	25.4
Total Stockholders' Equity	915.5	826.6
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,729.3	\$ 1,660.9

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

Watts Water Technologies, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity

(Amounts in millions, except share information)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2004	25,049,338	\$ 2.5	7,343,880	\$.7	\$ 138.8	\$ 324.2	\$ 26.7	\$ 492.9
Comprehensive income:								
Net income						54.6		54.6
Cumulative translation adjustment and other							(19.4)	(19.4)
Pension plan additional minimum liability, net of tax of (\$1.2m)							(2.0)	(2.0)
Comprehensive income								33.2
Shares of Class A Common Stock issued upon the exercise of stock options	107,823	—			1.5			1.5
Tax benefit for stock options exercised					.9			.9
Issuance of shares of restricted Class A Common Stock	5,616	—			—			—
Amortization of deferred compensation					.3			.3
Net change in restricted stock units	42,433	—			1.2			1.2
Common Stock dividends						(10.5)		(10.5)
Balance at December 31, 2005	25,205,210	\$ 2.5	7,343,880	\$.7	\$ 142.7	\$ 368.3	\$ 5.3	\$ 519.5
Comprehensive income:								
Net income						73.7		73.7
Cumulative translation adjustment and other							25.0	25.0
Pension plan additional liability, net of tax of \$0.6 million							.9	.9
Comprehensive income								99.6
Initial impact upon adoption of FAS 158, net of tax of (\$3.8m)							(5.8)	(5.8)
Shares of Class A Common Stock issued upon the exercise of stock options	106,499	—			1.9			1.9
Tax benefit for stock options exercised					1.4			1.4
Stock-based compensation					3.0			3.0
Shares of Class B Common Stock converted to Class A Common Stock	50,000	—	(50,000)	—				—
Issuance of shares of restricted Class A Common Stock	59,008	—			—			—
Net change in restricted stock units	68,394	—			.8			.8
Shares of Class A Common Stock issued in Stock Offering, net of offering costs of \$11.4 million	5,750,000	.6			218.0			218.6
Common Stock dividends						(12.4)		(12.4)
Balance at December 31, 2006	31,239,111	\$ 3.1	7,293,880	\$.7	\$ 367.8	\$ 429.6	\$ 25.4	\$ 826.6
Comprehensive income:								
Net income						77.4		77.4
Cumulative translation adjustment and other							39.1	39.1
Pension plan gain arising during the year, net of tax of \$3.0 million							4.2	4.2
Comprehensive income								120.7
Impact upon adoption of measurement date provisions of FAS158						(.8)		(.8)
Shares of Class A Common Stock issued upon the exercise of stock options	66,658	—			1.1			1.1
Tax benefit for stock awards exercised					1.0			1.0
Stock-based compensation					6.0			6.0
Issuance of shares of restricted								

Class A Common Stock	58,726	—		—		—		—
Net change in restricted stock units	109,977	—		1.7		1.7		1.7
Repurchase and retirement of Class A Common Stock	(874,416)	—				(25.2)		(25.2)
Common Stock dividends						(15.6)		(15.6)
<hr/>								
Balance at December 31, 2007	30,600,056	\$ 3.1	7,293,880	\$.7	\$ 377.6	\$ 465.4	\$ 68.7	\$ 915.5
<hr/>								

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

Watts Water Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Amounts in millions)

	Years Ended December 31,		
	2007	2006	2005
OPERATING ACTIVITIES			
Net income	\$ 77.4	\$ 73.7	\$ 54.6
Less: loss from discontinued operations	(.2)	(3.4)	(.4)
Income from continuing operations	77.6	77.1	55.0
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:			
Depreciation	28.9	26.7	23.5
Amortization	10.5	8.6	2.6
(Gain) loss on disposal and impairment of property, plant and equipment and other	2.0	(8.3)	.6
Stock-based compensation	6.0	3.0	—
Deferred income tax benefit	(8.2)	(2.1)	(1.3)
Changes in operating assets and liabilities, net of effects from business acquisitions and divestures:			
Accounts receivable	6.5	(17.0)	(16.5)
Inventories	(8.1)	(37.3)	(20.3)
Prepaid expenses and other assets	(1.2)	2.0	(4.1)
Accounts payable, accrued expenses and other liabilities	(22.3)	30.3	13.6
Net cash provided by continuing operations	91.7	83.0	53.1
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(37.8)	(44.7)	(18.6)
Proceeds from the sale of property, plant and equipment	.6	31.9	.7
Investments in securities	(27.5)	(11.8)	—
Proceeds from sale of securities	.4	—	26.6
Increase in other assets	(.5)	(1.2)	(.5)
Business acquisitions, net of cash acquired	(22.6)	(93.4)	(191.4)
Net cash used in investing activities	(87.4)	(119.2)	(183.2)
FINANCING ACTIVITIES			
Proceeds from long-term debt	43.8	356.6	161.5
Payments of long-term debt	(71.5)	(228.3)	(42.0)
Payment of capital leases	(1.7)	(4.1)	—
Proceeds from share transactions under employee stock plans	1.1	1.9	1.8
Tax benefit of stock awards exercised	1.0	1.4	.9
Debt issue costs	—	(2.4)	—
Proceeds from stock offering, net	—	218.6	—
Payments to repurchase common stock	(23.6)	—	—
Dividends	(15.6)	(12.4)	(10.5)
Net cash provided by (used in) financing activities	(66.5)	331.3	111.7
Effect of exchange rate changes on cash and cash equivalents	9.4	1.2	(.6)
Net cash provided by (used in) operating activities of discontinued operations	.1	.9	(1.1)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(52.7)	297.2	(20.1)
Cash and cash equivalents at beginning of year	343.0	45.8	65.9
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 290.3	\$ 343.0	\$ 45.8
NON CASH INVESTING AND FINANCING ACTIVITIES			
Fair value of assets acquired and liabilities assumed from the acquisition of businesses	\$ 3.8	\$ 4.0	\$ —

Acquisitions of property, plant and equipment under capital lease	\$ 1.4	\$ 16.0	\$ —
Issuance of stock under management stock purchase plan	\$ 1.7	\$.8	\$ 1.2
Liability for shares repurchased	\$ 1.4	\$ —	\$ —
Retirement of variable rate demand bonds with cash collateral	\$ —	\$ (8.9)	\$ 8.9
CASH PAID FOR:			
Interest	\$ 27.1	\$ 21.7	\$ 9.5
Taxes	\$ 48.0	\$ 35.3	\$ 30.7

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

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(1) Description of Business

Watts Water Technologies, Inc. (the Company) designs, manufactures and sells an extensive line of water safety and flow control products primarily for the water quality, water safety, water flow control and water conservation markets located predominantly in North America, Europe, and China.

(2) Accounting Policies

Principles of Consolidation

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

Cash Equivalents

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

Investment Securities

Investment securities at December 31, 2007 and 2006 consisted of auction rate certificates whose underlying investments were in AAA rated municipal bonds. The certificates are bought and sold at auction with reset dates of up to 35 days. The certificates were purchased at par value, which approximates market value at December 31, 2007 and 2006. The Company classifies its debt securities as available for sale.

Available-for-sale securities are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, and forecasted performance of the investee.

Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective-interest method. Dividend and interest income are recognized when earned.

Allowance for Doubtful Accounts

Allowance for doubtful accounts includes reserves for bad debts and sales returns and allowances. The Company analyzes the aging of accounts receivable, individual accounts receivable, historical bad debts, concentration of receivables by customer, customer credit worthiness, current economic trends and changes in customer payment terms. The Company specifically analyzes individual accounts receivable and establishes specific reserves against financially troubled customers. In addition, factors

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

are developed in certain regions utilizing historical trends of sales and returns and allowances to derive a reserve for returns and allowances.

Concentration of Credit

The Company sells products to a diversified customer base and, therefore, has no significant concentrations of credit risk, except that approximately 10.0% and 10.7% of the Company's total sales in 2006 and 2005, respectively, were to one customer. These sales were transacted within the North America geographic segment. In 2007, no one customer accounted for 10.0% or more of the Company's total sales.

Inventories

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

Goodwill and Other Intangible Assets

Goodwill is recorded when the consideration paid for acquisitions exceeds the fair value of net tangible and intangible assets acquired. Goodwill and other intangible assets with indefinite useful lives are not amortized, but rather are tested annually for impairment. The test was performed as of October 28, 2007.

Impairment of Goodwill and Long-Lived Assets

Goodwill and intangible assets with indefinite lives are tested annually for impairment in accordance with the provisions of Financial Accounting Standards Board Statement No. 142 "Goodwill and Other Intangible Assets" (FAS 142). The Company's impairment review is based on a discounted cash flow approach at the reporting unit level that requires management judgment with respect to revenue and expense growth rates, changes in working capital and the selection and use of an appropriate discount rate. The Company uses its judgment in assessing whether assets may have become impaired between annual impairment tests. Indicators such as unexpected adverse business conditions, economic factors, unanticipated technological change or competitive activities, loss of key personnel and acts by governments and courts, may signal that an asset has become impaired.

Intangible assets with estimable lives and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (FAS 144). Recoverability of intangible assets with estimable lives and other long-lived assets is measured by a comparison of the carrying amount of an asset or asset group to future net undiscounted pretax cash flows expected to be generated by the asset or asset group. If these comparisons indicate that an asset is not recoverable, the impairment loss recognized is the amount by which the carrying amount of the asset or asset group exceeds the related estimated fair value. Estimated fair value is based on either discounted future pretax operating cash flows or appraised values, depending on the nature of the asset. The Company determines the discount rate for this analysis based on the expected internal rate of return for the related business and does not allocate interest charges to the asset or asset group being measured. Judgment is required to estimate future operating cash flows.

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

The changes in the carrying amount of goodwill are as follows:

	North America	Europe	China	Total
	<hr/>	<hr/>	<hr/>	<hr/>
	(in millions)			
Carrying amount at December 31, 2005	\$ 193.6	\$ 97.4	\$ 5.6	\$ 296.6
Goodwill acquired during the period	—	37.2	3.4	40.6
Adjustments to goodwill during the period	5.3	—	—	5.3
Effect of change in exchange rates used for translation	—	13.3	.3	13.6
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at December 31, 2006	\$ 198.9	\$ 147.9	\$ 9.3	\$ 356.1
Goodwill acquired during the period	7.6	—	—	7.6
Adjustments to goodwill during the period	3.8	1.1	2.4	7.3
Effect of change in exchange rates used for translation	.7	13.4	.7	14.8
	<hr/>	<hr/>	<hr/>	<hr/>
Carrying amount at December 31, 2007	\$ 211.0	\$ 162.4	\$ 12.4	\$ 385.8
	<hr/>	<hr/>	<hr/>	<hr/>

The adjustments to North American goodwill during the year ended December 31, 2007 relate to an accrual of approximately \$3.8 million in earn-out provisions. The adjustment to European goodwill during the year ended December 31, 2007 includes the finalization of the ATS Expansion Group purchase price allocation. ATS Expansion Group was acquired in May 2006. The adjustment to China goodwill during the year ended December 31, 2007 includes the finalization of the Changsha Valve Works purchase price allocation. Changsha Valve Works was acquired in April 2006.

The adjustments to North American goodwill during the year ended December 31, 2006 relate to an accrual of approximately \$4.0 million in earn-out provisions and in 2006 includes the finalization of the Dormont Manufacturing Company and Core Industries Inc. purchase price allocations. Dormont Manufacturing Company and Core Industries Inc. were acquired in December 2005.

Other intangible assets include the following and are presented in "Other Assets: Other, net", in the Consolidated Balance Sheets:

	December 31,			
	2007		2006	
	<hr/>	<hr/>	<hr/>	<hr/>
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	<hr/>	<hr/>	<hr/>	<hr/>
	(in millions)			
Patents	\$ 13.8	\$ (6.1)	\$ 13.2	\$ (5.3)
Customer relationships	70.0	(14.3)	65.3	(7.5)
Technology	7.5	(2.3)	7.5	(1.2)
Other	19.0	(5.8)	15.3	(4.0)
	<hr/>	<hr/>	<hr/>	<hr/>
Total amortizable intangible assets	110.3	(28.5)	101.3	(18.0)
	<hr/>	<hr/>	<hr/>	<hr/>
Intangible assets not subject to amortization	52.2	—	50.5	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 162.5	\$ (28.5)	\$ 151.8	\$ (18.0)
	<hr/>	<hr/>	<hr/>	<hr/>

Aggregate amortization expense for amortized other intangible assets for the years ended December 31, 2007, 2006 and 2005 was \$10.5 million, \$8.6 million and \$2.6 million, respectively. Additionally, future amortization expense on amortizable intangible assets approximates \$9.3 million for 2008, \$9.0 million for 2009, \$8.9 million for 2010, \$8.3 million for 2011 and \$6.9 million for 2012.

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

Amortization expense is provided on a straight-line basis over the estimated useful lives of the intangible assets. The weighted-average remaining life of total amortizable intangible assets is 10.8 years. Patents, customer relationships, technology and other amortizable intangibles have weighted-average remaining lives of 9.2 years, 9.4 years, 6.4 years and 19.2 years, respectively. Intangible assets not subject to amortization primarily include trademarks and unpatented technology.

Property, Plant and Equipment

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

Taxes, Other than Income Taxes

Taxes assessed by governmental authorities on sale transactions are recorded on a net basis and excluded from sales, in the Company's consolidated statements of operations.

Income Taxes

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

On January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). The purpose of FIN 48 is to increase the comparability in financial reporting of income taxes. FIN 48 requires that in order for a tax benefit to be booked in the income statement, the item in question must meet the more-likely-than-not (greater than 50% likelihood of being sustained upon examination by the taxing authorities) threshold. The adoption of FIN 48 did not have a material effect on the Company's financial statements. No cumulative effect was booked through beginning retained earnings.

As of the adoption date, the Company had gross unrecognized tax benefits of approximately \$4.8 million, of which approximately \$4.2 million, if recognized, would affect the effective tax rate. The difference between the amount of unrecognized tax benefits and the amount that would impact the effective tax rate consists of the federal tax benefit of state income tax items. During 2007, the Company reduced its unrecognized tax benefits by approximately \$0.6 million for a tax issue in Italy. As a result of the conclusion of state income tax audits, it is reasonably possible that the total amount of unrecognized tax benefits will change in the next twelve months. The Company estimates that it is reasonably possible that approximately \$0.5 million of the currently remaining unrecognized tax benefit may be recognized by the end of 2008 as a result of the conclusion of the state income tax audits. Notwithstanding, the Company does not expect any further significant changes in the amounts of unrecognized tax benefits within the next twelve months.

As of December 31, 2007, the Company had gross unrecognized tax benefits of approximately \$3.7 million, of which approximately \$3.2 million, if recognized, would affect the effective tax rate. The difference between the amount of unrecognized tax benefits and the amount that would impact the

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

effective tax rate consists of the federal tax benefit of state income tax items. A reconciliation of the beginning and ending amount of unrecognized tax benefits and a separate analysis of accrued interest related to the unrecognized tax benefits is as follows:

	(in millions)
Balance as of January 1, 2007	\$ 4.8
Increases related to prior year tax provisions	1.1
Decreases related to prior year tax provisions	(1.6)
Increases related to current year tax positions	.2
Settlements	(.8)
Balance as of December 31, 2007	\$ 3.7

Accrued interest related to unrecognized tax benefits:

	(in millions)
Balance as of January 1, 2007	\$.6
Increases	.4
Decreases	—
Balance as of December 31, 2007	\$ 1.0

The Company was under audit by the Internal Revenue Service for the 2003 and 2004 tax years. The audit was completed in February 2008 and resulted in no significant adjustments. The Company conducts business in a variety of locations throughout the world resulting in tax filings in numerous domestic and foreign jurisdictions. The Company is subject to tax examinations regularly as part of the normal course of business. The Company's major jurisdictions are the U.S., Canada, China, Netherlands, U.K., Germany, Italy and France. With few exceptions the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2002.

The Company accounts for interest and penalties related to uncertain tax positions as a component of income tax expense.

Several tax years remain subject to examination by major jurisdictions. Years that remain open to examination with respect to U.S. federal taxes are 2005-2006. The Company is currently under audit by the Commonwealth of Massachusetts for 2001-2003. Upon conclusion of that audit, 2004-2006 will remain open. Years that remain open to examination in Canada are 2003-2006. Years that remain open to examination for major European countries include the United Kingdom 2002-2006, Germany 2005-2006, Italy 2002-2006, France 2005-2006 and the Netherlands 2002-2006.

Foreign Currency Translation

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

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

it does not provide for such taxes on undistributed earnings of foreign subsidiaries. Gains and losses from foreign currency transactions of these subsidiaries are included in net earnings.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted Financial Accounting Standards Board Statement No. 123R, "Share-Based Payment" (FAS 123R) utilizing the "modified prospective" method as described in FAS 123R. Under the "modified prospective" method, compensation cost is recognized for all share-based payments granted after the effective date and for all unvested awards granted prior to the effective date. In accordance with FAS 123R, prior period amounts were not restated. FAS 123R also requires the excess tax benefits associated with these share-based payments to be classified as financing activities in the Statements of Consolidated Cash Flows, rather than as operating cash flows as required under previous regulations.

At December 31, 2007, the Company had three stock-based compensation plans with total unrecognized compensation costs related to unvested stock-based compensation arrangements of approximately \$9.5 million and a total weighted average remaining term of 2.3 years. For 2007 and 2006, the Company recognized compensation costs related to stock-based programs of approximately \$6.0 million and \$3.0 million, respectively, in selling, general and administrative expenses. The Company recorded approximately \$0.7 million and \$0.4 million of tax benefit during 2007 and 2006, respectively, for the compensation expense relating to its stock options. For 2007 and 2006, the Company recorded approximately \$1.3 million and \$0.6 million, respectively, of tax benefit for its other stock-based plans. For 2007 and 2006, the recognition of total stock-based compensation expense impacted both basic net income per common share and diluted net income per common share by \$0.10 and \$0.06, respectively.

Prior to the effective date, the stock-based compensation plans were accounted for under Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Pro-forma information regarding the impact of total stock-based compensation on net income and income per share for prior periods is required by FAS 123R.

Such pro-forma information, determined as if the Company had accounted for its employee stock options and restricted stock units (RSUs) under the fair value method to measure stock-based compensation as required under the disclosure provisions of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" (FAS 123) as amended by Financial Accounting Standards Board Statement No. 148 "Accounting for Stock-Based Compensation Transition

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

and Disclosure" (FAS 148) during 2005, is illustrated in the following tables (Amounts in millions, except per share information):

	Year Ended December 31, 2005
Net income, as reported	\$ 54.6
Add: Stock-based employee compensation expense from the Management Stock Purchase Plan included in reported net income, net of tax	.5
Deduct: Stock-based employee expense determined under the fair value method, net of tax:	
Restricted stock units (Management Stock Purchase Plan)	(.6)
Employee stock options	(1.1)
Pro forma net income	\$ 53.4
Earnings per share:	
Basic—as reported	\$ 1.68
Basic—pro forma	\$ 1.64
Diluted—as reported	\$ 1.66
Diluted—pro forma	\$ 1.62

Net Income Per Common Share

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

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

	Years Ended December 31,								
	2007			2006			2005		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(Amounts in millions, except per share information)								
Basic EPS	\$ 77.4	38.6	\$ 2.00	\$ 73.7	33.3	\$ 2.21	\$ 54.6	32.5	\$ 1.68
Dilutive securities principally common stock options	—	.4	(.01)	—	.4	(.02)	—	.5	(.02)
Diluted EPS	\$ 77.4	39.0	\$ 1.99	\$ 73.7	33.7	\$ 2.19	\$ 54.6	33.0	\$ 1.66

The computation of diluted net income per share for the year ended December 31, 2007 excludes the effect of the potential exercise of options to purchase approximately 0.5 million shares, because the exercise price of the option was greater than the average market price of the Class A Common Stock, as the effect would have been anti-dilutive.

During the period January 1, 2008 to February 22, 2008, the Company repurchased approximately 1.4 million shares of its Class A Common Stock.

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

Derivative Financial Instruments

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

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

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

Certain forecasted transactions, primarily intercompany sales between the United States and Canada, and assets are exposed to foreign currency risk. The Company monitors its foreign currency exposures on an ongoing basis to maximize the overall effectiveness of its foreign currency hedge positions. During 2007 and 2006, the Company used foreign currency forward contracts as a means of hedging exposure to foreign currency risks. The Company's foreign currency forwards did not qualify as a cash flow hedge under the criteria of FAS 133.

Portions of the Company's outstanding debt are exposed to interest rate risks. The Company monitors its interest rate exposures on an ongoing basis to maximize the overall effectiveness of its interest rates. During 2006, the Company used an interest rate swap as a means of hedging exposure to interest rate risks (see Note 11). The Company's interest rate swap did not qualify as a cash flow hedge under the criteria of FAS 133.

Shipping and Handling

Shipping and handling costs included in selling, general and administrative expense amounted to \$39.1 million, \$37.3 million and \$28.1 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

Research and Development

Research and development costs included in selling, general, and administrative expense amounted to \$15.1 million, \$12.7 million and \$11.6 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Revenue Recognition

The Company recognizes revenue when all of the following criteria have been met: the Company has entered into a binding agreement, the product has been shipped and title passes, the sales price to the customer is fixed or is determinable, and collectability is reasonably assured. Provisions for estimated returns and allowances are made at the time of sale, and are recorded as a reduction of sales and included in the allowance for doubtful accounts in the Consolidated Balance Sheets. The Company records provisions for sales incentives (primarily volume rebates), as an adjustment to net sales in accordance with the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) Issue 00-14, "Accounting for Certain Sales Incentives" (EITF 00-14) and EITF Issue No 01-9, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products".

Basis of Presentation

Certain amounts for 2006 and 2005 have been reclassified to permit comparison with the 2007 presentation.

Estimates

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

New Accounting Standards

In December 2007, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Board Statement (FAS) No. 141 (R), "Business Combinations," (FAS 141R), which requires most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination to be recorded at "full fair value." Under FAS 141R, all business combinations will be accounted for under the acquisition method. Significant changes, among others, from current guidance resulting from FAS 141R includes the requirement that contingent assets and liabilities and contingent consideration shall be recorded at estimated fair value as of the acquisition date, with any subsequent changes in fair value charged or credited to earnings. Further, acquisition-related costs will be expensed rather than treated as part of the acquisition. FAS 141R is effective for periods beginning on or after December 15, 2008. The Company expects the adoption of FAS 141R will increase costs charged to its operations.

In December 2007, the FASB issued FAS No. 160, "Non-controlling Interests in Consolidated Financial Statements, an amendment of ARB NO. 151," (FAS 160), which requires non-controlling interests (previously referred to as minority interest) to be treated as a separate component of equity, not as a liability as is current practice. FAS 160 applies to non-controlling interests and transactions with non-controlling interest holders in consolidated financial statements. FAS 160 is effective for

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

periods beginning on or after December 15, 2008. The Company is currently evaluating the effect that FAS 160 will have on its consolidated financial statements.

In February 2007, the FASB issued FAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—including an Amendment to FAS No. 115," (FAS 159), which permits entities to choose to measure many financial instruments and certain other items at fair value. FAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Earlier application is encouraged. The Company does not expect to measure its financial instruments at fair value and therefore does not expect the adoption of FAS 159 to have a material impact on its consolidated financial statements.

In September 2006, the FASB issued FAS No. 157, "Fair Value Measurements" (FAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. For financial assets and liabilities, FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. For nonfinancial assets and liabilities, FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. Earlier application is encouraged provided that the reporting company has not yet issued financial statements for that fiscal year, including financial statements for an interim period within that fiscal year. The Company does not expect the adoption of FAS 157 will have a material impact on its consolidated financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements" (SAB 108), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. The Company adopted the provisions of SAB 108 for fiscal year 2006 and the impact of SAB 108 was not material to its consolidated financial statements.

In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)," (FAS 158), which requires an employer to: (a) recognize in its statement of financial position an asset for a plan's overfunded status or a liability for a plan's underfunded status; (b) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes are reported in other comprehensive income. The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective as of the end of the fiscal year ending after December 15, 2006 for companies with publicly traded equity securities. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008, although earlier adoption is permitted. As a result of the requirement to recognize the funded status of the Company benefit plans as of December 31, 2006, the Company recorded an increase in its pension liability of approximately \$8.3 million, a decrease of approximately \$1.3 million in other assets: other, net and a decrease in accumulated other comprehensive income of approximately \$5.8 million, net of tax. The Company has early-adopted the measurement date provisions of FAS 158 effective January 1, 2007. The Company's pension plans previously used a September 30 measurement date. All plans are now measured as of December 31, consistent with the Company's fiscal year end.

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

The non-cash effect of the adoption of the measurement date provisions of FAS 158 was not material and there was no effect on the Company's results of operations.

In July 2006, the FASB issued Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, based on the technical merits. This interpretation also provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 was effective for fiscal years beginning after December 15, 2006. The Company adopted the provisions of FIN 48 for fiscal year 2007 and the impact was not material to its consolidated financial statements.

In March 2006, the FASB issued FAS No. 156 "Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140," (FAS 156). FAS 156 amends FAS Statement No.140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. FAS 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. The Company adopted the provisions of FAS 156 for fiscal year 2007 and the impact was not material to its consolidated financial statements.

In February 2006, the FASB issued FAS No. 155 "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" (FAS 155). FAS 155 amends FAS 133, "Accounting for Derivatives and Hedging Activities," and FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. The Company adopted the provisions of FAS 155 for fiscal year 2007 and the impact was not material to its consolidated financial statements.

In May 2005, the FASB issued FAS No. 154, "Accounting Changes and Error Correction Replacement of APB Opinion No. 20 and FASB Statement No. 3" (FAS 154). FAS 154 replaces APB Opinion No. 20, "Accounting Changes" (APB 20), and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. APB 20 previously required that most voluntary changes in accounting principles be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle. FAS 154 defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used. FAS 154 also requires that a change in depreciation, amortization, or depletion method for long-lived, non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. The impact was not material to its consolidated financial statements.

In December 2004, the FASB issued FAS 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

Notes to Consolidated Financial Statements (Continued)

(2) Accounting Policies (Continued)

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 were applied prospectively and the impact was not material to the Company's consolidated financial statements.

In November 2004, the FASB issued FAS 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 for fiscal years beginning after June 15, 2005. The impact was not material to the Company's 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 relate to legal and settlement costs associated with the James Jones Litigation (see Note 15).

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

	Years Ended December 31,		
	2007	2006	2005
	(in millions)		
Costs and expenses—Municipal Water Group	\$ (.4)	\$ (5.5)	\$ (.7)
Loss before income taxes	(.4)	(5.5)	(.7)
Income tax benefit	.2	2.1	.3
Loss from discontinued operations, net of taxes	\$ (.2)	\$ (3.4)	\$ (.4)
	December 31,		
	2007	2006	
	(in millions)		
Prepaid expenses and other assets	\$ (.3)	\$.3	
Deferred income taxes	10.7	9.8	
Assets of discontinued operations	\$ 10.4	\$ 10.1	
Accrued expenses and other liabilities	\$ 28.6	\$ 27.9	
Liabilities of discontinued operations	\$ 28.6	\$ 27.9	

Notes to Consolidated Financial Statements (Continued)

The assets and liabilities for 2007 and 2006 primarily relate to reserves for the James Jones Litigation. Statements of Cash Flows amounts for 2007, 2006 and 2005 relate to operating activities.

(4) Restructuring and Other (Income) Charges

During 2007, the Company undertook a review of certain product lines and its overall manufacturing capacity. Based on that review, the Company initiated a global restructuring program that was approved by the Company's Board of Directors on October 30, 2007. The Company is also discontinuing certain product lines. This program is expected to include the shutdown of five manufacturing facilities and the rightsizing of a sixth facility, including the relocation of its joint venture facility in China that was previously disclosed. The restructuring program and charges for certain product line discontinuances will include pre-tax charges totaling approximately \$12.9 million. Charges are primarily for severance (\$4.3 million), relocation costs (\$2.8 million) and other asset write-downs and expected net losses on asset disposals (\$2.0 million) and will result in the elimination of approximately 330 positions worldwide. The product lines that were discontinued and accelerated depreciation resulted in a pre-tax charge of \$4.3 million during 2007. Total net after-tax charges for this program are expected to be approximately \$9.4 million (\$4.4 million non-cash), with costs being incurred through early 2010. The Company expects to spend approximately \$13.4 million in capital expenditures to consolidate operations and will fund approximately \$8.0 million of this amount through proceeds from the sale of buildings and other assets being disposed of as part of the restructuring program. Annual cash savings, net of tax, are estimated to be \$4.5 million, which will be fully realized by the second half of 2009.

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

Reportable Segment	(in millions)
North America	\$ 5.7
Europe	3.9
China	3.3
Total	\$ 12.9

For 2007, the Company recorded pre-tax charges of approximately \$7.5 million. Pre-tax costs of \$4.3 million recorded in costs of goods sold were primarily for product line discontinuances. Pre-tax costs of \$3.2 million recorded in restructuring and other charges were primarily for asset write-downs related to the Company's wholly owned Chinese manufacturing plants, accelerated depreciation related to the Company's relocation of its 60% owned Chinese joint venture and severance costs in both China and North America. The Company also recognized income of \$0.9 million in minority interest representing the 40% liability of its Chinese joint venture partner in the restructuring plan.

For 2006, the Company recorded charges of \$4.7 million in costs of goods sold primarily for manufacturing severance costs related to the Company's relocation plan for its 60% owned Chinese joint venture. The Company recorded income of \$5.6 million to restructuring and other (income) charges which is primarily comprised of gains of approximately \$8.2 million related to the sales of buildings in Italy, partially offset by charges of approximately \$2.2 million for severance costs related to the Company's European restructuring plans and approximately \$0.4 million for accelerated amortization related to the Company's Chinese restructuring plan. The Company also recognized income of \$1.5 million in minority interest representing the 40% liability of its Chinese joint venture partner in the TWT restructuring plan.

Notes to Consolidated Financial Statements (Continued)

(4) Restructuring and Other (Income) Charges (Continued)

For 2005, Company recorded charges, net of recoveries, of \$2.5 million. The expenses incurred were primarily for accelerated depreciation for both the planned closure of a U.S. manufacturing plant and a reduction in the estimated useful lives of certain manufacturing equipment, net of recoveries and for European severance related charges and asset write-downs.

With respect to the table below, restructuring costs consist primarily of severance costs. In 2007 and 2005, severance costs were recorded in restructuring and other charges (income) and, in 2006, were recorded in cost of goods sold. Asset write-downs consist primarily of write-offs of fixed assets and accelerated depreciation. Product line discontinuances consist of inventory write-offs related to product lines the Company has discontinued and are recorded in cost of goods sold. Other costs consist of gains on sales of buildings in 2006 and of removal and shipping costs associated with relocation of manufacturing equipment in 2007 and 2005.

Details of the Company's manufacturing restructuring plans through December 31, 2007 are as follows:

	Restructuring	Asset Write-downs	Product line discontinuance	Other Costs	Minority Interest	Total
	(in millions)					
Balance as of December 31, 2004	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Provisions during 2005	.7	1.4	—	.4	—	2.5
Utilized during 2005	(.7)	(1.4)	—	(.4)	—	(2.5)
Balance as of December 31, 2005	—	—	—	—	—	—
Provisions during 2006	6.7	.5	—	(8.2)	(1.5)	(2.5)
Utilized during 2006	(2.5)	(.5)	—	8.2	1.5	6.7
Balance as of December 31, 2006	4.2	—	—	—	—	4.2
Provisions during 2007	.8	2.8	3.8	.1	(.9)	6.6
Utilized during 2007	(2.6)	(2.8)	(3.8)	(.1)	.9	(8.4)
Balance as of December 31, 2007	\$ 2.4	\$ —	\$ —	\$ —	\$ —	\$ 2.4

(5) Business Acquisitions

The following acquisition was accounted for by the purchase method of accounting and, accordingly, the results have been included in the Company's consolidated results of operation since the date of acquisition.

On November 9, 2007, the Company acquired the assets and business of Topway Global Inc. (Topway) located in Brea, California for approximately \$18.4 million, of which \$0.3 million of transaction costs remain to be paid. The preliminary allocations for goodwill and intangible assets are approximately \$7.6 million and \$8.2 million, respectively. The amount recorded as intangible assets is primarily for customer relationships with an estimated useful life of 10 years and trade names with indefinite lives. Topway manufactures a wide variety of water softeners, point-of-entry filter units, and point-of-use drinking water systems for residential, commercial and industrial applications. The purchase price allocation for Topway is preliminary pending the final determination of the fair values of certain assumed assets and liabilities.

Certain acquisition agreements from prior years contain either an earn-out provision or a put feature on the remaining common stock not yet purchased by the Company. In 2007, the Company

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(5) Business Acquisitions (Continued)

accrued approximately \$3.8 million in earn-out provisions which were charged to goodwill and will be paid in 2008. In 2006, the Company accrued approximately \$4.0 million in earn-out provisions which were charged to goodwill and paid in 2007. During 2005, the Company charged to operations approximately \$1.5 million in earn-out costs from a prior year acquisition, which were also paid in 2005. The calculations are typically based on a multiple of future gross margins or operating earnings as defined in the agreements. All future earn-outs payments, if any, will be accounted for as additional purchase price.

(6) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) consist of the following:

	Foreign Currency Translation and Other	Defined Benefit Pension Plans	Accumulated Other Comprehensive Income
	<u> </u>	<u> </u>	<u> </u>
	(in millions)		
Balance December 31, 2005	\$ 13.1	\$ (7.8)	\$ 5.3
Change in period	25.0	(4.9)	20.1
	<u>38.1</u>	<u>(12.7)</u>	<u>25.4</u>
Balance December 31, 2006	38.1	(12.7)	25.4
Change in period	39.1	4.2	43.3
	<u>77.2</u>	<u>(8.5)</u>	<u>68.7</u>
Balance December 31, 2007	\$ 77.2	\$ (8.5)	\$ 68.7
	<u> </u>	<u> </u>	<u> </u>

(7) Inventories, net

Inventories consist of the following:

	December 31,	
	2007	2006
	<u> </u>	<u> </u>
	(in millions)	
Raw materials	\$ 108.9	\$ 103.6
Work in process	45.7	39.6
Finished goods	187.0	173.2
	<u>341.6</u>	<u>316.4</u>
	\$ 341.6	\$ 316.4
	<u> </u>	<u> </u>

Finished goods of \$20.3 million and \$18.3 million as of December 31, 2007 and 2006, respectively, were consigned.

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(8) Property, Plant and Equipment

Property, plant and equipment consists of the following:

	December 31,	
	2007	2006
	(in millions)	
Land	\$ 13.7	\$ 12.5
Buildings and improvements	132.6	124.3
Machinery and equipment	270.5	247.4
Construction in progress	20.6	7.7
	437.4	391.9
Accumulated depreciation	(213.7)	(185.7)
	\$ 223.7	\$ 206.2

(9) Income Taxes

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

	December 31,	
	2007	2006
	(in millions)	
Deferred income tax liabilities:		
Excess tax over book depreciation	\$ 15.3	\$ 16.0
Intangibles	23.5	18.8
Other	12.4	11.1
Total deferred tax liabilities	51.2	45.9
Deferred income tax assets:		
Accrued expenses	22.0	17.0
Net operating loss carry-forward	3.2	3.4
Inventory reserves	13.7	8.0
Other	10.7	9.7
Total deferred tax assets	49.6	38.1
Less: valuation allowance	(3.2)	—
Net deferred tax assets	46.4	38.1
Net deferred tax liabilities	\$ (4.8)	\$ (7.8)

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

	Years Ended December 31,		
	2007	2006	2005
	(in millions)		
Domestic	\$ 47.6	\$ 49.6	\$ 46.4
Foreign	66.2	66.5	39.4

\$	113.8	\$	116.1	\$	85.8
<hr/>		<hr/>		<hr/>	

Notes to Consolidated Financial Statements (Continued)

(9) Income Taxes (Continued)

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

	Years Ended December 31,		
	2007	2006	2005
	(in millions)		
Current tax expense:			
Federal	\$ 19.2	\$ 18.0	\$ 15.2
Foreign	20.4	20.5	14.0
State	4.8	4.1	3.5
	<u>44.4</u>	<u>42.6</u>	<u>32.7</u>
Deferred tax expense (benefit):			
Federal	(5.7)	(1.7)	(1.0)
Foreign	(1.2)	(1.5)	(.7)
State	(1.3)	(.4)	(.2)
	<u>(8.2)</u>	<u>(3.6)</u>	<u>(1.9)</u>
	<u>\$ 36.2</u>	<u>\$ 39.0</u>	<u>\$ 30.8</u>

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

	Years Ended December 31,		
	2007	2006	2005
	(in millions)		
Computed expected federal income expense	\$ 39.8	\$ 40.6	\$ 30.0
State income taxes, net of federal tax benefit	2.3	2.4	2.1
Foreign tax rate differential	(7.2)	(4.4)	(.5)
Valuation allowance	3.2	—	—
Other, net	(1.9)	.4	(.8)
	<u>\$ 36.2</u>	<u>\$ 39.0</u>	<u>\$ 30.8</u>

At December 31, 2007, the Company has foreign net operating loss carry forwards of \$16.9 million for income tax purposes. All of the net operating losses are foreign losses. \$7.0 million of the losses can be carried forward indefinitely and \$4.8 million of the losses expires in 2013 and \$5.1 million of the losses expire in 2016. The net operating losses consist of \$5.5 million related to German operations, \$1.5 million to Austrian operations, \$5.1 million to Netherlands operations and \$4.8 million related to Chinese operations.

The Company has a valuation allowance of \$3.2 million related to its deferred tax assets at its Chinese joint venture.

The Company believes that it is more likely than not that it will be able to recover the net deferred tax assets.

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$251.6 million, \$168.9 million and \$163.1 million at December 31, 2007, 2006 and 2005, respectively.

Notes to Consolidated Financial Statements (Continued)

(9) Income Taxes (Continued)

Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been recorded thereon. Upon distribution of those earnings, in the form of dividends or otherwise, the Company will be subject to withholding taxes payable to the various foreign countries. Determination of the amount of U.S. income tax liability that would be incurred is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of any U.S. income tax liability. Withholding taxes of approximately \$5.4 million would be payable upon remittance of all previously unremitted earnings at December 31, 2007.

(10) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consist of the following:

	December 31,	
	2007	2006
	(in millions)	
Commissions and sales incentives payable	\$ 42.6	\$ 37.0
Accrued insurance	26.1	15.0
Other	38.5	39.3
Income taxes payable	6.4	9.1
	<u>\$ 113.6</u>	<u>\$ 100.4</u>

(11) Financing Arrangements

Long-term debt consists of the following:

	December 31,	
	2007	2006
	(in millions)	
5.85% notes due April 2016	\$ 225.0	\$ 225.0
4.87% notes due May 2010	50.0	50.0
5.47% notes due May 2013	75.0	75.0
\$350.0 million Revolving Credit Facility maturing in April 2011. Eurocurrency rate loans interest accruing at LIBOR or Euro LIBOR plus an applicable percentage (Euro LIBOR at 4.7% and 3.6% at December 31, 2007 and 2006, respectively) At December 31, 2007, \$81.8 million was for euro based borrowings and there were no outstanding U.S. borrowings. At December 31, 2006, \$91.1 million were for euro based borrowings and there were no outstanding U.S. borrowings	81.8	91.1
Other—consists primarily of European borrowings (at interest rates ranging from 3.3% to 8.5%)	1.7	8.1
	<u>433.5</u>	<u>449.2</u>
Less Current Maturities	1.3	7.5
	<u>\$ 432.2</u>	<u>\$ 441.7</u>

Notes to Consolidated Financial Statements (Continued)

(11) Financing Arrangements (Continued)

Principal payments during each of the next five years and thereafter are due as follows (in millions): 2008—\$1.3; 2009—\$0.2; 2010—\$50.2; 2011—\$81.8; 2012—\$0 and thereafter—\$300.0.

The Company maintains letters of credit that guarantee its performance or payment to third parties in accordance with specified terms and conditions. Amounts outstanding were approximately \$45.0 million as of December 31, 2007 and \$49.6 million as of December 31, 2006. The Company's letters of credit are primarily associated with insurance coverage and to a lesser extent foreign purchases. The Company's letters of credit generally expire within one year of issuance and are drawn down against the revolving credit facility. These instruments may exist or expire without being drawn down. Therefore, they do not necessarily represent future cash flow obligations.

On April 27, 2006, the Company completed a private placement of \$225.0 million of 5.85% senior unsecured notes due April 2016 (the 2006 Note Purchase Agreement). The 2006 Note Purchase Agreement includes operational and financial covenants, with which the Company is required to comply, including, among others, maintenance of certain financial ratios and restrictions on additional indebtedness, liens and dispositions. Events of default under the 2006 Note Purchase Agreement include failure to comply with its financial and operational covenants, as well as bankruptcy and other insolvency events. The Company may, at its option, upon notice to the noteholders, prepay at any time all or part of the Notes in an amount not less than \$1 million by paying the principal amount plus a make-whole amount, which is dependent upon the yield of respective U.S. Treasury Securities. The Company used the net proceeds from the private placement to repay \$147.0 million outstanding under its revolving credit facility. The balance of the net proceeds will be used to finance future acquisitions and for general corporate purposes. As of December 31, 2007, the Company was in compliance with all covenants related to the 2006 Note Purchase Agreement. The payment of interest on the senior unsecured notes is due semi-annually on April 30th and October 30th of each year. Additionally, the Company amended its 2003 Note Purchase Agreement to reflect the existence of the subsidiary guarantors and to substantially conform certain provisions of the 2003 Note Purchase Agreement to the 2006 Note Purchase Agreement.

On April 27, 2006, the Company amended and restated its unsecured revolving credit facility with a syndicate of banks (as amended, the revolving credit facility). The revolving credit facility provides for multi-currency unsecured borrowings and stand-by letters of credit of up to \$350.0 million and expires in April 2011. Borrowings outstanding under the revolving credit facility bear interest at a fluctuating rate per annum equal to an applicable percentage equal to (i) in the case of Eurocurrency rate loans, the British Bankers Association LIBOR rate plus an applicable percentage of 0.625%, which is determined by reference to the Company's 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 rate of interest in effect for such day as announced by Bank of America, N.A. as its "prime rate." For 2007, the average interest rate under the revolving credit facility for euro-based borrowings was approximately 4.6%. The revolving credit facility includes operational and financial covenants customary for facilities of this type, including, among others, restrictions on additional indebtedness, liens and investments and maintenance of certain leverage ratios. As of December 31, 2007, the Company was in compliance with all covenants related to the revolving credit facility; had \$234.4 million of unused and potentially available credit under the revolving credit facility; had no U.S dollar denominated debt and \$81.8 million of euro-based borrowings outstanding on its revolving credit facility; and had \$33.8 million for stand-by letters of credit outstanding on its revolving credit facility.

At the closing of the Dormont acquisition, Dormont had long-term debt outstanding of \$8.9 million in the form of two series of taxable variable rate demand bonds (1998 Series with

Notes to Consolidated Financial Statements (Continued)

(11) Financing Arrangements (Continued)

\$1.5 million outstanding and the 2000 Series with \$7.4 million outstanding) which, due to the provisions of the trust agreements, could only be redeemed at dates subsequent to the closing. Each of these bonds was secured by a letter of credit from a bank, which maintained a security interest in the assets of Dormont. As a condition of the purchase and to gain the bank's consent to the sale of Dormont to the Company, Dormont's former owners were required to establish a cash collateral account for the bonds in an amount equal to the potential obligation of Dormont to the bank under the letter of credit reimbursement agreements. The entire obligation under the bonds approximates \$9.1 million, which represents the \$8.9 million in bond principal plus interest and related fees. At closing, a portion of the Dormont purchase price was placed in a cash collateral account as a guarantee of payment. The Company recorded this escrow deposit in prepaid expenses and other assets at December 31, 2005. The 1998 series bonds were repaid in full on January 17, 2006 and the 2000 series bonds were repaid in full on February 1, 2006 by the former owners using the cash collateral account.

Effective July 1, 2005, the Company entered into a three-year interest rate swap with a counter party for a notional amount of €25.0 million, which was outstanding under the revolving credit facility. The Company swapped three-month EURIBOR plus 0.6% for a fixed rate of 3.02%. The change in the fair value of the swap during 2006 approximated \$0.7 million and was recorded as a reduction of interest expense in 2006. The swap was terminated on October 3, 2006.

On May 15, 2003, the Company completed a private placement of \$125.0 million of senior unsecured notes consisting of \$50.0 million principal amount of 4.87% senior notes due 2010 and \$75.0 million principal amount of 5.47% senior notes due 2013. The payment of interest on the senior unsecured notes is due semi-annually on May 15th and November 15th of each year. The senior unsecured notes were issued by Watts Water Technologies, Inc. and are *pari passu* with the revolving credit facility, which is at the subsidiary level. The senior unsecured notes allow the Company to have (i) debt senior to the notes in an amount up to \$150.0 million plus 5% of stockholders' equity and (ii) debt *pari passu* or junior to the senior unsecured notes to the extent the Company maintains compliance with a 2.00 to 1.00 fixed charge coverage ratio. The notes include a prepayment provision which might require a make-whole payment to the note holders. Such payment is dependent upon the level of the respective treasuries. The notes include other customary terms and conditions, including events of default.

(12) Common Stock

The Class A Common Stock and Class B Common Stock have equal dividend and liquidation rights. Each share of the Company's Class A Common Stock is entitled to one vote on all matters submitted to stockholders and each share of Class B Common Stock is entitled to ten votes on all such matters. Shares of Class B Common Stock are convertible into shares of Class A Common Stock, on a one-to-one basis, at the option of the holder. As of December 31, 2007, the Company has reserved a total of 4,611,899 of Class A Common Stock for issuance under its stock-based compensation plans and 7,293,880 shares for conversion of Class B Common Stock to Class A Common Stock.

In February 2007, the Company's Board of Directors adopted an amendment, which was subsequently approved by the Company's stockholders, to increase the number shares of Class A Common Stock available to be granted under the Company's Management Stock Purchase Plan from 1,000,000 shares to 2,000,000 shares.

Notes to Consolidated Financial Statements (Continued)

(12) Common Stock (Continued)

In November 2007, the Company announced that its Board of Directors had authorized a repurchase of up to 3,000,000 shares of its Class A Common Stock. As of December 31, 2007, the Company had repurchased 867,451 shares of stock for a total cost of \$25.0 million.

(13) Stock-Based Compensation

The Company maintains three stock incentive plans under which key employees and outside directors have been granted incentive stock options (ISOs) and nonqualified stock options (NSOs) to purchase the Company's Class A Common Stock. Only one plan, the 2004 Stock Incentive Plan, is currently available for the grant of new equity awards. Stock options granted under prior plans became exercisable over a five-year period at the rate of 20% per year and expire ten years after the date of grant. Under the 2004 Stock Incentive Plan, options become exercisable over a four-year period at the rate of 25% per year and expire ten years after the grant date. ISOs and NSOs granted under the plans may have exercise prices of not less than 100% and 50% of the fair market value of the Class A Common Stock on the date of grant, respectively. The Company's current practice is to grant all options at fair market value on the grant date. At December 31, 2007, 3,078,132 shares of Class A Common Stock were authorized for future grants of new equity awards under the Company's stock incentive plans.

The Company also grants shares of restricted stock to key employees and non-employee members of the Company's Board of Directors under the 2004 Stock Incentive Plan, which vest either immediately or over a three-year period at the rate of one-third per year. The restricted stock awards are amortized to expense on a straight-line basis over the vesting period.

The Company also has a Management Stock Purchase Plan that allows for the granting of restricted stock units (RSUs) to key employees. On an annual basis, key employees may elect to receive a portion of their annual incentive compensation in RSUs instead of cash. Each RSU provides the key employee with the right to purchase a share of Class A Common Stock at 67% of the fair market value on the date of grant. RSUs vest annually over a three-year period from the grant date. An aggregate of 2,000,000 shares of Class A Common Stock may be issued under the Management Stock Purchase Plan.

2004 Stock Incentive Plan

At December 31, 2007, total unrecognized compensation cost related to the unvested stock options was approximately \$4.4 million with a total weighted average remaining term of 2.6 years. For 2007 and 2006, the Company recognized compensation cost of \$2.7 million and \$1.4 million, respectively, in selling, general and administrative expenses.

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(13) Stock-Based Compensation (Continued)

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

	Years Ended December 31,						
	2007			2006		2005	
	Options	Weighted Average Exercise Price	Intrinsic Value	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
(Options in thousands)							
Outstanding at beginning of year	1,140	\$ 23.99		1,089	\$ 21.70	1,000	\$ 17.82
Granted	189	33.36		164	35.20	310	31.66
Cancelled/Forfeitures	(94)	31.08		(7)	34.16	(113)	21.49
Exercised	(67)	17.17		(106)	17.61	(108)	14.26
Outstanding at end of year	1,168	\$ 25.32	\$ 4.48	1,140	\$ 23.99	1,089	\$ 21.70
Exercisable at end of year	705	\$ 21.42	\$ 8.38	566	\$ 19.13	422	\$ 16.05

As of December 31, 2007, the aggregate intrinsic values of outstanding and exercisable options were approximately \$5.2 million and \$5.9 million, respectively, representing the total pre-tax intrinsic value, based on the Company's closing Class A Common Stock price of \$29.80 as of December 31, 2007 which would have been received by the option holders had all option holders exercised their options as of that date. The total intrinsic value of options exercised for 2007 and 2006 was approximately \$1.4 million and \$2.2 million, respectively.

Upon exercise of options, the Company issues shares of Class A Common Stock.

The following table summarizes information about options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
	(options in thousands)				
\$10.56—\$14.08	64	2.83	\$ 11.17	64	\$ 11.1
\$14.09—\$17.60	370	4.92	16.53	333	16.4
\$24.64—\$28.16	208	6.02	25.12	156	25.1
\$31.68—\$35.20	526	8.25	33.28	152	32.8
	1,168	6.50	\$ 25.32	705	\$ 21.4

The fair value of each option granted under the 2004 Stock Incentive Plan is estimated on the date of grant, using the Black-Scholes-Merton Model, based on the following weighted average assumptions:

	Years Ended December 31,		
	2007	2006	2005
Expected life (years)	5.8	5.8	5.8
Expected stock price volatility	37.2%	35.9%	36.2%
Expected dividend yield	1.2%	1.0%	1.0%
Risk-free interest rate	4.6%	4.9%	4.0%

Notes to Consolidated Financial Statements (Continued)

(13) Stock-Based Compensation (Continued)

The risk-free interest rate is based upon the U.S. Treasury yield curve at the time of grant for the respective expected life of the option. The expected life (estimated period of time outstanding) of options and volatility were calculated using historical data. The expected dividend yield of stock is the Company's best estimate of the expected future dividend yield. The Company applied an estimated forfeiture rate of 15% for its stock options. These rates were calculated based upon historical activity and are an estimate of granted shares not expected to vest. If actual forfeitures differ from the expected rates, the Company may be required to make additional adjustments to compensation expense in future periods.

The above assumptions were used to determine the weighted average grant-date fair value of stock options of \$12.75, \$13.50 and \$11.54 for the years ending December 31, 2007, 2006 and 2005, respectively.

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

	Years Ended December 31,					
	2007		2006		2005	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
	(Shares in thousands)					
Unvested at beginning of year	73	\$ 33.62	27	\$ 26.51	32	\$ 25.05
Granted	74	33.21	60	35.27	6	32.05
Forfeitures	(15)	34.10	(1)	35.20	—	—
Vested	(43)	31.85	(13)	26.09	(11)	25.05
Unvested at end of year	89	\$ 34.05	73	\$ 33.62	27	\$ 26.51

The total fair value of shares vested during 2007, 2006 and 2005 was \$1.4 million, \$0.4 million and \$0.3 million, respectively. At December 31, 2007, total unrecognized compensation cost related to unvested restricted stock was approximately \$2.9 million with a total weighted average remaining term of 2.1 years. For 2007 and 2006, the Company recognized compensation costs of \$1.6 million and \$0.6 million, respectively, in selling, general and administrative expenses. The Company applied an estimated forfeiture rate of 10% for restricted stock issued to key employees. The aggregate intrinsic value of restricted stock granted and outstanding approximated \$2.7 million representing the total pre-tax intrinsic value based on the Company's closing Class A Common Stock price of \$29.80 as of December 31, 2007.

Management Stock Purchase Plan

Total unrecognized compensation cost related to unvested RSUs was approximately \$2.2 million at December 31, 2007 with a total weighted average remaining term of 1.9 years. For 2007 and 2006 the Company recognized compensation cost of \$1.7 million and \$1.0 million, respectively, in selling, general and administrative expenses. Dividends declared for RSUs, that are paid to individuals, that remain unpaid at December 31, 2007 total approximately \$0.2 million.

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(13) Stock-Based Compensation (Continued)

A summary of the Company's RSUs activity and related information for 2007 is shown in the following table:

	Years Ended December 31,						
	2007			2006		2005	
	RSUs	Weighted Average Purchase Price	Intrinsic Value	RSUs	Weighted Average Purchase Price	RSUs	Weighted Average Purchase Price
	(RSUs in thousands)						
Outstanding at beginning of period	347	\$ 19.00		328	\$ 16.02	267	\$ 12.27
Granted	160	25.73		87	23.34	120	22.28
Cancelled/Forfeitures	(31)	25.03		—	—	(17)	9.93
Settled	(110)	15.62		(68)	10.20	(42)	16.50
Outstanding at end of period	366	\$ 22.45	\$ 7.35	347	\$ 19.00	328	\$ 16.02
Vested at end of period	141	\$ 18.98	\$ 10.82	148	\$ 15.64	120	\$ 11.56

As of December 31, 2007, the aggregate intrinsic values of outstanding and vested RSUs were approximately \$2.7 million and \$1.5 million, respectively, representing the total pre-tax intrinsic value, based on the Company's closing Class A Common Stock price of \$29.80 as of December 31, 2007 which would have been received by the RSUs holders had all RSUs settled as of that date. The total intrinsic value of RSUs settled for 2007 and 2006 was approximately \$2.5 million and \$1.4 million, respectively. Upon settlement of RSUs, the Company issues shares of Class A Common Stock.

The following table summarizes information about RSUs outstanding at December 31, 2007:

Range of Purchase Prices	RSUs Outstanding			RSUs Vested	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Purchase Price	Number Vested	Weighted Average Purchase Price
	(RSUs in thousands)				
\$7.04—\$10.56	35	3.2	\$ 9.54	35	\$ 9.54
\$14.08—\$17.60	7	1.2	15.50	7	15.50
\$21.12—\$24.64	188	.7	22.74	99	22.58
\$24.65—\$28.16	136	2.2	25.73	—	—
	366	1.5	\$ 22.45	141	\$ 18.98

The fair value of each share issued under the Management Stock Purchase Plan is estimated on the date of grant, using the Black-Scholes-Merton Model, based on the following weighted average assumptions:

	Years Ended December 31,		
	2007	2006	2005
Expected life (years)	3.0	3.0	3.0
Expected stock price volatility	35.3%	25.7%	26.0%
Expected dividend yield	1.0%	1.5%	1.4%
Risk-free interest rate	4.8%	4.5%	3.4%

Notes to Consolidated Financial Statements (Continued)

(13) Stock-Based Compensation (Continued)

The risk-free interest rate is based upon the U.S. Treasury yield curve at the time of grant for the respective expected life of the RSU's. The expected life (estimated period of time outstanding) of RSU's and volatility were calculated using historical data. The expected dividend yield of stock is the Company's best estimate of the expected future dividend yield. The Company applied an estimated forfeiture rate of 10% for its RSUs. These rates were calculated based upon historical activity and are an estimate of granted shares not expected to vest. If actual forfeitures differ from the expected rates, the Company may be required to make additional adjustments to compensation expense in future periods.

The above assumptions were used to determine the weighted average grant-date fair value of RSUs granted of \$16.79, \$13.60 and \$12.41 during 2007, 2006 and 2005, respectively.

The Company distributed dividends of \$0.40 per share for 2007, \$0.36 per share for 2006 and \$0.32 per share for 2005 on the Company's Class A Common Stock and Class B Common Stock.

(14) Employee Benefit Plans

The Company sponsors funded and unfunded non-contributing defined benefit pension plans that together cover 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. Beginning in 2007, the Company uses a December 31 measurement date for its plans. Prior to 2007, the Company used a September 30 measurement date for its plans.

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(14) Employee Benefit Plans (Continued)

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

	December 31,	
	2007	2006
	(in millions)	
Change in projected benefit obligation		
Balance at beginning of the year	\$ 72.6	\$ 69.1
Service cost	3.8	3.5
Administration cost	(.4)	(.4)
Plan change	.1	.7
Interest cost	4.3	3.8
Actuarial gain	(6.0)	(1.9)
Benefits paid	(2.3)	(2.2)
One-time adjustment for measurement date change	1.3	—
	<u>\$ 73.4</u>	<u>\$ 72.6</u>
Change in fair value of plan assets		
Balance at beginning of the year	\$ 42.6	\$ 40.1
Actual gain on assets	3.6	1.9
Employer contributions	7.3	3.2
Administration cost	(.4)	(.4)
Benefits paid	(2.3)	(2.2)
One-time adjustment for measurement date change	8.0	—
	<u>\$ 58.8</u>	<u>\$ 42.6</u>
Fair value of plan assets at end of the year		
	<u>\$ 58.8</u>	<u>\$ 42.6</u>
Funded status at end of year	\$ (14.6)	\$ (30.0)
Contributions after measurement date and on or before fiscal year end	—	6.6
	<u>\$ (14.6)</u>	<u>\$ (23.4)</u>
Net amount recognized		
	<u>\$ (14.6)</u>	<u>\$ (23.4)</u>

Amounts recognized in the balance sheet are as follows:

	December 31,	
	2007	2006
	(in millions)	
Current liabilities	\$ (.1)	\$ (.1)
Noncurrent liabilities	(14.5)	(23.3)
	<u>\$ (14.6)</u>	<u>\$ (23.4)</u>
Net amount recognized		
	<u>\$ (14.6)</u>	<u>\$ (23.4)</u>

Amounts recognized in accumulated other comprehensive income consist of:

	December 31,	
	2007	2006
	(in millions)	
Net actuarial loss	\$ 11.2	\$ 19.0

Prior service cost	<u>1.8</u>	<u>1.7</u>
Net amount recognized	<u>\$ 13.0</u>	<u>\$ 20.7</u>

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(14) Employee Benefit Plans (Continued)

Information for pension plans with an accumulated benefit obligation in excess of plan assets are as follows:

	December 31,	
	2007	2006
	(in millions)	
Projected benefit obligation	\$ 73.4	\$ 72.6
Accumulated benefit obligation	\$ 66.4	\$ 64.3
Fair value of plan assets	\$ 58.8	\$ 42.6

The components of net periodic benefit cost are as follows:

	Years Ended December 31,		
	2007	2006	2005
	(in millions)		
Service cost—benefits earned	\$ 3.8	\$ 3.5	\$ 2.9
Interest costs on benefits obligation	4.3	3.8	3.3
Expected return on assets	(4.4)	(3.5)	(3.2)
Prior service cost amortization	.2	.3	.2
Net actuarial loss amortization	.9	1.2	.9
Curtailment charge	.2	—	—
Net periodic benefit cost	\$ 5.0	\$ 5.3	\$ 4.1

The estimated net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next year are \$0.4 million and \$0.2 million, respectively.

Assumptions:

Weighted-average assumptions used to determine benefit obligations:

	2007	2006
Discount rate	6.50%	5.875%
Rate of compensation increase	4.00%	4.00%

Weighted-average assumptions used to determine net periodic benefit costs:

	2007	2006	2005
Discount rate	5.875%	5.50%	5.75%
Long-term rate of return on assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	4.00%

Discount rates are selected based upon rates of return at the measurement date utilizing a bond matching approach to match the expected benefit cash flows. In selecting the expected long-term rate of return on assets, the Company considers the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of this plan. This includes considering the trust's asset allocation and the expected returns likely to be earned over the life of the plan. This basis is consistent with the prior year.

Notes to Consolidated Financial Statements (Continued)

(14) Employee Benefit Plans (Continued)

Plan assets:

The weighted average asset allocations by asset category is as follows:

Asset Category	2007	2006
Equity securities	64.9%	64.4%
Debt securities	29.8	30.0
Other	5.3	5.6
Total	100.0%	100.0%

The Company's written Retirement Plan Investment Policy sets forth the investment policy, objectives and constraints of the Watts Water Technologies, Inc. Pension Plan. This Retirement Plan Investment Policy, set forth by the Pension Plan Committee, defines general investment principles and directs investment management policy, addressing preservation of capital, risk aversion and adherence to investment discipline. Investment managers are to make a reasonable effort to control risk and are evaluated quarterly against commonly accepted benchmarks to ensure that the risk assumed is commensurate with the given investment style and objectives.

The portfolio is designed to achieve a balanced return of current income and modest growth of capital, while achieving returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power of Plan assets. All Plan assets are required to be invested in liquid securities. Derivative investments will not be allowed.

Prohibited investments include, but are not limited to the following: commodities and futures contracts, private placements, options, limited partnerships, venture-capital investments, real estate properties, interest-only (IO), principal-only (PO), and residual tranche CMOs, and Watts Water Technologies, Inc. stock.

Prohibited transactions include, but are not limited to the following: short selling and margin transactions.

Allowable assets include: cash equivalents, fixed income securities, equity securities, mutual funds, and GICs.

Specific guidelines regarding allocation of assets are as follows: equities shall comprise between 25% and 75% of the total portfolio, while fixed income shall comprise between 30% and 65%. Investment performance is monitored on a regular basis and investments are re-allocated to stay within specific guidelines. An equity/fixed income allocation of 55%/45% is preferred. The securities of any one company or government agency should not exceed 10% of the total fund, and no more than 20% of the total fund should be invested in any one industry. Individual treasury securities may represent 50% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Plan's aggregate bond position.

Notes to Consolidated Financial Statements (Continued)

(14) Employee Benefit Plans (Continued)

Cash flows:

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

	December 31,	
	2007	2006
	(in millions)	
Employer Contributions	\$ 7.3	\$ 9.8
Benefit Payments	\$ 2.3	\$ 2.2

No contributions are expected to be made in 2008.

Expected benefit payments to be paid by the pension plans are as follows:

	(in millions)
During fiscal year ending December 31, 2008	\$ 2.6
During fiscal year ending December 31, 2009	\$ 2.8
During fiscal year ending December 31, 2010	\$ 3.0
During fiscal year ending December 31, 2011	\$ 3.2
During fiscal year ending December 31, 2012	\$ 3.5
During fiscal year ending December 31, 2013 through December 31, 2017	\$ 24.0

Additionally, substantially all of the Company's domestic employees are eligible to participate in certain 401(k) savings plans. Under these plans, the Company matches a specified percentage of employee contributions, subject to certain limitations. The Company's match contributions (included in selling, general and administrative expense) for the years ended December 31, 2007, 2006, and 2005 were \$0.6 million, \$0.6 million, and \$0.4 million, respectively. Charges for European pension plans approximated \$3.0 million, \$1.9 million and \$2.0 million for the years ended December 31, 2007, 2006, and 2005, respectively. These costs relate to plans administered by certain European subsidiaries, with benefits calculated according to government requirements and paid out to employees upon retirement or change of employment.

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

Notes to Consolidated Financial Statements (Continued)

(15) Contingencies and Environmental Remediation

James Jones Litigation

On June 25, 1997, Nora Armenta (the Relator) filed a civil action in the California Superior Court for Los Angeles County (the Armenta case) against James Jones Company (James Jones), Mueller Co., Tyco International (U.S.), and the Company. The Company formerly owned James Jones. The Relator filed under the qui tam provision of the California state False Claims Act, Cal. Govt. Code § 12650 et seq. (California False Claims Act) and generally alleged that James Jones and the other defendants violated this statute by delivering some "defective" or "non-conforming" waterworks parts to thirty-four municipal water systems in the State of California. The Relator filed a First Amended Complaint in November 1998 and a Second Amended Complaint in December 2000, which brought the total number of plaintiffs to 161. To date, 11 of the named cities have intervened and attempts by four other named cities to intervene have been denied.

In June 2002, the trial court excluded 47 cities from this December 2000 total of 161, but this exclusion was reversed by an August 30, 2006 California Court of Appeal ruling that is now final. This August 30, 2006, Court of Appeal ruling also reversed dismissals of Tyco International and Mueller Co. and this allowed the Relator to make a successful motion that removed the Armenta Case litigation from Judge Lichtman's court to the court of Judge Chaney, another complex litigation judge.

One of the allegations in the Second Amended Complaint and the Complaints-in-Intervention is that purchased non-conforming James Jones waterworks parts may leach into public drinking water elevated amounts of lead that may create a public health risk because they were made out of '81 bronze alloy (UNS No. C8440) and contain more lead than the specified and advertised '85 bronze alloy (UNS No. C83600). This contention is based on the average difference of about 2% lead content between '81 bronze (6% to 8% lead) and '85 bronze (4% to 6% lead) and the assumption that this would mean increased consumable lead in public drinking water that could cause a public health concern. The Company believes the evidence and discovery available to date indicates that this is not the case.

In addition, '81 bronze is used extensively in municipal and home plumbing systems and is approved by municipal, local and national codes. The Federal Environmental Protection Agency also defines metal for pipe fittings with no more than 8% lead as "lead free" under Section 1417 of the Federal Safe Drinking Water Act.

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

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

In August 2003, an additional settlement payment was made for \$13.0 million (\$11.0 million from the Company and \$2.0 million from James Jones), which settled the claims of the three Phase I cities (Santa Monica, San Francisco and East Bay Municipal Utility District) chosen by the Relator as having the strongest claims to be tried first. This settlement payment included the Relator's statutory share,

Notes to Consolidated Financial Statements (Continued)

(15) Contingencies and Environmental Remediation (Continued)

and the claims of these three cities have been dismissed. In addition to this \$13.0 million payment, the Company is obligated to pay the Relator's attorney's fees.

After the Phase I settlement, the Court permitted the defendants to select five additional cities to serve as the plaintiffs in a second trial phase of the case. Contra Costa, Corona, Santa Ana, Santa Cruz and Vallejo were chosen. The Company and James Jones then reached an agreement to settle the claims of the City of Santa Ana for a total of \$45,000, an amount which approximates Santa Ana's purchases of James Jones products during the relevant period. The Santa Ana settlement was approved by the Court and then completed.

On June 22, 2005, the Court dismissed the claims of the remaining Phase II cities (Contra Costa, Corona, Santa Cruz and Vallejo). The Court ruled that the Relator and these cities were required to show that the cities had received out of spec parts which were related to specific invoices and that this showing had not been made. Although each city's claim is unique, this ruling is significant for the claims of the remaining cities, and the Relator appealed. However, this judgment can be appealed again at the conclusion of the entire case. The trial court has scheduled a trial on March 17, 2009 for six Phase III cities with three cities to be selected by each side. Litigation is inherently uncertain, and the Company is unable to predict the outcome of this case.

On September 15, 2004, the Relator's attorneys filed a new common law fraud lawsuit in the California Superior Court for the City of Banning and forty-six other cities and water districts against James Jones, Watts and Mueller Co. based on the same transactions alleged in the Armenta case. About forty-two of the plaintiffs in this new lawsuit are also plaintiffs in the Armenta case. The statute of limitations threshold issue is in the process of being resolved for these plaintiffs. Litigation is inherently uncertain, and the Company is unable to predict the outcome of this case.

The Company has a reserve of approximately \$28.0 million with respect to the James Jones Litigation in our consolidated balance sheet as of December 31, 2007. The Company believes, on the basis of all available information, that this reserve is adequate to cover the probable and reasonably estimable losses resulting from the Armenta case and the insurance coverage litigation with Zurich American Insurance Company (Zurich) discussed below. The Company is currently unable to make an estimate of the range of any additional losses.

On February 14, 2001, after the Company's insurers had denied coverage for the claims in the Armenta case, it filed a complaint for coverage against its insurers in the California Superior Court (the coverage case). James Jones filed a similar complaint, the cases were consolidated, and the trial court made summary adjudication rulings that Zurich must pay all reasonable defense costs incurred by the Company and James Jones in the Armenta case since April 23, 1998 as well as such defense costs in the future until the end of the Armenta case. In August 2004, the California Court of Appeal affirmed these rulings, and, on December 1, 2004, the California Supreme Court denied Zurich's appeal of this decision. This denial permanently established Zurich's obligation to pay Armenta defense costs for both the Company (approximately \$16.6 million plus future costs) and James Jones (which the Company estimates to be \$17.0 million plus future costs), and Zurich is currently making payments of incurred Armenta defense costs. However, as noted below, Zurich asserts that the defense costs paid by it are subject to reimbursement.

On November 22, 2002, the trial court entered a summary adjudication order that Zurich must indemnify and pay the Company and James Jones for amounts paid to settle with the City of Los Angeles. Zurich's attempt to obtain appellate review of this order was denied, but Zurich will still be able to appeal this order at the end of the coverage case. On August 6, 2004, the trial court made

Notes to Consolidated Financial Statements (Continued)

(15) Contingencies and Environmental Remediation (Continued)

another summary adjudication ruling that Zurich must indemnify and pay us and James Jones for the \$13.0 million paid to settle the claims of the Phase I cities described above. Zurich's attempt to obtain appellate review of this ruling was denied on December 3, 2004 by the California Court of Appeal, but Zurich will still be able to appeal this order at the end of the coverage case. Zurich has now made all of the payments required by these indemnity orders.

On February 8, 2006, Zurich filed a motion to set aside as void the November 22, 2002 and August 6, 2004 summary adjudication indemnity payment orders. After this motion was denied, Zurich's appeal was also denied and the California Supreme Court denied Zurich's petition for review. The Company is currently unable to predict the finality of these indemnity payment orders since Zurich can also appeal them at the end of the coverage case. The Company has recorded reimbursed indemnity settlement amounts (but not reimbursed defense costs) as a liability pending court resolution of the indemnification matter as it relates to Zurich.

Zurich has asserted that all amounts (which the Company estimates to be \$56.0 million for both defense costs and indemnity amounts paid for settlements) paid by it to the Company and James Jones are subject to reimbursement under Deductible Agreements related to the insurance policies between Zurich and Watts. If Zurich were to prevail on this argument, James Jones would have a possible indemnity claim against the Company for its exposure from the Armenta case. The Company believes the Armenta case should be viewed as one occurrence and the deductible amount should be \$0.5 million per occurrence.

These reimbursement claims are subject to arbitration under the Watts/Zurich Deductible Agreements. Zurich claims its reimbursement right for defense costs paid arises under six Deductible Agreements, and the Company contend that only two Deductible Agreements apply. The Company further contend that a final decision in California supports our position on the number of Deductible Agreements that should apply to defense costs. On January 31, 2006, the federal district court in Chicago, Illinois determined that there are disputes under all Deductible Agreements in effect during the period in which Zurich issued primary policies and that the arbitrator could decide which agreements would control reimbursement claims. The Company appealed this ruling. On October 20, 2006, the United States Court of Appeals for the Seventh Circuit affirmed that an arbitration panel could decide which deductible agreements between Zurich and the Company would control Zurich's reimbursement claim for defense costs paid in the James Jones case. As a result of this development, the Company recorded a pre-tax charge of \$5.0 million to discontinued operations in 2006.

Based on management's assessment, the Company does not believe that the ultimate outcome of the James Jones Litigation will have a material adverse effect on its liquidity, financial condition or results of operations. While this assessment is based on all available information, litigation is inherently uncertain, the actual liability to the Company to resolve this litigation fully cannot be predicted with any certainty and there exists a reasonable possibility that the Company may ultimately incur losses in the James Jones Litigation in excess of the amount accrued. The Company intends to continue to contest vigorously all aspects of the James Jones Litigation.

Environmental Remediation

The Company has been named as a potentially responsible party (PRP) with respect to a limited number of identified contaminated sites. The levels of contamination vary significantly from site to site as do the related levels of remediation efforts. Environmental liabilities are recorded based on the most probable cost, if known, or on the estimated minimum cost of remediation. The Company accrues

Notes to Consolidated Financial Statements (Continued)

(15) Contingencies and Environmental Remediation (Continued)

estimated environmental liabilities based on assumptions, which are subject to a number of factors and uncertainties. Circumstances which can affect the reliability and precision of these estimates include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation and the time period over which remediation may occur. The Company recognizes changes in estimates as new remediation requirements are defined or as new information becomes available. At December 31, 2007, the Company has a reserve of approximately \$1.4 million (environmental accrual), which it estimates will likely be paid for environmental remediation liabilities over the next five to ten years. Based on the facts currently known to it, the Company does not believe that the ultimate outcome of these matters will have a material adverse effect on its liquidity, financial condition or results of operations. Some of its environmental matters are inherently uncertain and there exists a possibility that it may ultimately incur losses from these matters in excess of the amount accrued. However, the Company cannot currently estimate the amount of any such additional losses.

Asbestos Litigation

The Company is defending approximately 100 cases filed primarily, but not exclusively, in Mississippi and New Jersey state courts alleging injury or death as a result of exposure to asbestos. These filings typically name multiple defendants and are filed on behalf of many plaintiffs. They do not identify any particular Watts products as a source of asbestos exposure. To date, the Company has been dismissed from each case when the scheduled trial date comes near or when discovery fails to yield any evidence of exposure to any of its products. Based on the facts currently known to it, the Company does not believe that the ultimate outcome of these claims will have a material adverse effect on its liquidity, financial condition or results of operations.

Other Litigation

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

(16) Financial Instruments*Fair Value*

The carrying amounts of cash and cash equivalents, investment securities, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments.

The fair value of the Company's 4.87% senior notes due 2010, 5.47% senior notes due 2013 and 5.85% senior notes due 2016 is based on quoted market prices. The fair value of the Company's variable rate debt approximates its carrying value. The carrying amount and the estimated fair market value of the Company's long-term debt, including the current portion, are as follows:

	December 31,	
	2007	2006
	(in millions)	
Carrying amount	\$ 433.5	\$ 449.2
Estimated fair value	\$ 424.9	\$ 447.5

Notes to Consolidated Financial Statements (Continued)

(16) Financial Instruments (Continued)

Derivative Instruments

The Company uses foreign currency forward exchange contracts as an economic hedge to reduce the impact of currency fluctuations on certain anticipated intercompany purchase transactions that are expected to occur during the next twelve months and certain other foreign currency transactions. Realized and unrealized gains and losses on the contracts are recognized in other income/expense. These contracts do not subject the Company to significant market risk from exchange movement because they offset gains and losses on the related foreign currency denominated transactions. At December 31, 2007 and 2006, the fair value of the contracts approximated \$0.1 million and \$0.2 million, respectively. At December 31, 2005, the Company had no outstanding forward contracts to buy foreign currencies.

The Company occasionally uses commodity futures contracts to fix the price on a certain portion of certain raw materials used in the manufacturing process. There were no commodity contracts utilized for the years ended December 31, 2007, 2006 and 2005.

Leases

The Company leases certain manufacturing facilities, sales offices, warehouses, and equipment. Generally the leases carry renewal provisions and require the Company to pay maintenance costs. Future minimum lease payments under capital leases and non-cancelable operating leases as of December 31, 2007 are as follows:

	Capital Leases	Operating Leases
	(in millions)	
2008	\$ 1.8	\$ 7.4
2009	1.8	5.5
2010	1.8	3.5
2011	1.8	2.2
2012	1.6	1.4
Thereafter	11.4	2.2
Total	\$ 20.2	\$ 22.2
Less amount representing interest (at rates ranging from 4.2% to 8.7%)	(3.5)	
Present value of net minimum capital lease payments	16.7	
Less current installments of obligations under capital leases	(1.4)	
Obligations under capital leases, excluding installments	\$ 15.3	

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(16) Financial Instruments (Continued)

Carrying amounts of assets under capital lease include:

	December 31,	
	2007	2006
	(in millions)	
Buildings	\$ 18.6	\$ 18.3
Machinery and equipment	8.9	3.1
	27.5	21.4
Less accumulated depreciation	(4.0)	(2.9)
	\$ 23.5	\$ 18.5

(17) 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 sell similar products, is managed separately and has separate financial results that are reviewed by the Company's chief operating decision-maker. All intercompany sales transactions have been eliminated. 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 (see Note 2).

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(17) Segment Information (Continued)

The following is a summary of the Company's significant accounts and balances by segment, reconciled to its consolidated totals:

	December 31,		
	2007	2006	2005
	(in millions)		
Net Sales			
North America	\$ 871.0	\$ 821.3	\$ 629.9
Europe	452.6	367.5	266.3
China	58.7	42.0	28.1
Consolidated net sales	\$ 1,382.3	\$ 1,230.8	\$ 924.3
Operating income (loss)			
North America	\$ 93.3	\$ 98.5	\$ 79.1
Europe	53.6	50.0	31.5
China	7.9	7.2	3.5
Subtotal reportable segments	154.8	\$ 155.7	\$ 114.1
Corporate(*)	(29.1)	(25.2)	(19.5)
Consolidated operating income	125.7	130.5	94.6
Interest income	14.5	5.0	1.2
Interest expense	(26.9)	(22.1)	(10.4)
Minority interest	2.8	1.8	(.3)
Other	(2.3)	.9	.7
Income from continuing operations before income taxes	\$ 113.8	\$ 116.1	\$ 85.8
Identifiable Assets			
North America	\$ 1,066.0	\$ 1,046.8	\$ 717.4
Europe	531.6	493.4	288.8
China	131.7	120.7	94.8
Consolidated identifiable assets	\$ 1,729.3	\$ 1,660.9	\$ 1,101.0
Long-Lived Assets			
North America	\$ 100.2	\$ 99.7	\$ 92.9
Europe	88.5	78.4	45.7
China	35.0	28.1	26.4
Consolidated long-lived assets	\$ 223.7	\$ 206.2	\$ 165.0
Capital Expenditures			
North America	\$ 13.9	\$ 14.6	\$ 9.5
Europe	12.6	27.5	6.1
China	11.3	2.6	3.0
Consolidated capital expenditures	\$ 37.8	\$ 44.7	\$ 18.6
Depreciation and Amortization			
North America	\$ 17.8	\$ 17.1	\$ 13.0
Europe	15.7	13.0	8.9
China	5.9	5.2	4.2
Consolidated depreciation and amortization	\$ 39.4	\$ 35.3	\$ 26.1

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

Watts Water Technologies, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(17) Segment Information (Continued)

The North America segment consists of U.S. net sales of \$805.5 million, \$762.7 million and \$582.3 million for the years ended December 31, 2007, 2006 and 2005, respectively. The North American segment also consists of U.S. long-lived assets of \$92.7 million, \$93.1 million and \$86.1 million as of December 31, 2007, 2006 and 2005, respectively.

Intersegment sales for the year ended December 31, 2007 for North America, Europe and China were \$6.6 million, \$6.0 million and \$137.1 million, respectively. Intersegment sales for the year ended December 31, 2006 for North America, Europe and China were \$6.9 million, \$3.0 million and \$82.3 million, respectively. Intersegment sales for the year ended December 31, 2005 for North America, Europe and China were \$4.8 million, \$5.3 million and \$48.8 million, respectively.

(18) Quarterly Financial Information (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions, except per share information)			
Year ended December 31, 2007				
Net sales	\$ 346.1	\$ 350.4	\$ 340.5	\$ 345.3
Gross profit	114.7	114.6	110.4	121.9
Income from continuing operations	20.0	17.7	18.2	21.7
Net income	20.0	17.8	18.1	21.5
Per common share:				
Basic				
Income from continuing operations	.52	.46	.47	.56
Net income	.52	.46	.47	.56
Diluted				
Income from continuing operations	.51	.45	.47	.56
Net income	.51	.46	.46	.55
Dividends per common share	.10	.10	.10	.10
Year ended December 31, 2006				
Net sales	\$ 275.0	\$ 300.2	\$ 325.1	\$ 330.5
Gross profit	95.8	106.4	111.9	110.9
Income from continuing operations	15.1	22.5	21.3	18.1
Net income	15.0	22.4	18.2	18.1
Per common share:				
Basic				
Income from continuing operations	.46	.69	.65	.52
Net income	.46	.69	.56	.52
Diluted				
Income from continuing operations	.46	.68	.65	.51
Net income	.46	.68	.55	.51
Dividends per common share	.09	.09	.09	.09

(19) Related Party Transactions

The Company's 60% owned Chinese joint venture Tianjin Tanggu Watts Valve Company Limited (TWT) leases the land and buildings from the joint venture partner in Tianjin China. The lease is classified as an operating lease. Total rental expense for 2007, 2006, and 2005 approximated

Notes to Consolidated Financial Statements (Continued)

(19) Related Party Transactions (Continued)

\$0.3 million. During 2006, the local Chinese government informed the Company that the property leased by TWT would be taken over by eminent domain by the end of the second quarter of 2008. The Company has therefore established a plan to relocate and rationalize those operations (see note 4).

On December 3, 2007, the Company entered into an Equity Transfer Agreement (the Agreement) with its joint venture partners to purchase the remaining 40% of the outstanding ownership interest in TWT that it did not already own. The purchase price will be approximately \$5.2 million, payable after certain closing conditions are met, including the approval of the Agreement by the local Chinese authorities, which the Company expects will occur by the end of the second quarter of 2008. The Company expects to record approximately \$3.7 million in goodwill for this acquisition.

(20) Subsequent Events

On February 5, 2008, the Company declared a quarterly dividend of eleven cents (\$0.11) per share on each outstanding share of Class A Common Stock and Class B Common Stock. This is an increase of \$0.01 per share compared to the dividend paid for the comparable period last year.

From January 1, 2008 through February 25, 2008, the Company liquidated approximately \$22.0 million of the Company's auction rate certificates at par value and invested the proceeds into money market accounts. At February 25, 2008, the Company held approximately \$17.0 million of auction rate certificates whose underlying investments are AAA rated municipal bonds. The Company has no current indications that the securities it holds may be impaired. However, volatility in the credit markets could impact the Company's ability to liquidate these investments or cause the fair value of the securities to be impaired. If liquidity of the securities becomes prohibitive, the Company may be forced to hold the securities until maturity or until conditions improve which could be as long as 33 years. Subsequent to December 31, 2007 through February 25, 2008, the Company experienced failed auctions on \$6.6 million of its auction rate certificates. The Company does not have a present need to access these funds for operational purposes. The amounts associated with failed auctions will not be accessible until a successful auction occurs, a buyer is found outside of the auction process or the underlying securities have matured. As a result, the Company has classified the \$17.0 million of auction rate certificates held as of February 25, 2008 as long-term assets in the Company's December 31, 2007 consolidated balance sheet.

Watts Water Technologies, Inc. and Subsidiaries

Schedule II—Valuation and Qualifying Accounts

(Amounts in millions)

For the Three Years Ended December 31:

	Balance At Beginning of Period	Additions Charged To Expense	Additions Charged To Other Accounts	Deductions	Balance At End of Period
Year Ended December 31, 2005					
Allowance for doubtful accounts	\$ 7.6	3.9	.3	(2.5)	\$ 9.3
Allowance for excess and obsolete inventories	\$ 16.2	2.6	1.1	(2.3)	\$ 17.6
Year Ended December 31, 2006					
Allowance for doubtful accounts	\$ 9.3	3.5	.3	(2.6)	\$ 10.5
Allowance for excess and obsolete inventories	\$ 17.6	9.1	1.0	(7.2)	\$ 20.5
Year Ended December 31, 2007					
Allowance for doubtful accounts	\$ 10.5	5.4	1.2	(2.2)	\$ 14.9
Allowance for excess and obsolete inventories	\$ 20.5	9.1	2.0	(7.2)	\$ 24.4

EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as amended (14)
3.2	Amended and Restated By-Laws, as amended (1)
9.1	The Amended and Restated George B. Horne Voting Trust Agreement—1997 dated as of September 14, 1999 (15)
10.1*	Supplemental Compensation Agreement effective as of September 1, 1996 between the Registrant and Timothy P. Horne (9), Amendment No. 1, dated July 25, 2000 (16), and Amendment No. 2 dated October 23, 2002 (3)
10.2*	Form of Indemnification Agreement between the Registrant and certain directors and officers of the Registrant (18)
10.3*	1996 Stock Option Plan, dated October 15, 1996 (10), and First Amendment dated February 28, 2003 (3)
10.4*	Watts Water Technologies, Inc. Pension Plan (amended and restated effective as of January 1, 2006) and First Amendment effective as of January 1, 2008
10.5	Registration Rights Agreement dated July 25, 1986 (5)
10.6*	Executive Incentive Bonus Plan, as amended and restated (8)
10.7	Amended and Restated Stock Restriction Agreement dated October 30, 1991 (2), and Amendment dated August 26, 1997 (12)
10.8*	Watts Industries, Inc. 1991 Non-Employee Directors' Nonqualified Stock Option Plan (6), and Amendment No. 1 (9)
10.9*	Watts Industries, Inc. 2003 Non-Employee Directors' Stock Option Plan (3)
10.10	Letter of Credit issued by Fleet National Bank (as successor to BankBoston, N.A.) for the benefit of Zurich-American Insurance Company dated June 25, 1999, as amended January 22, 2001 (17)
10.11*	Watts Water Technologies, Inc. Management Stock Purchase Plan (Amended and Restated as of January 1, 2005), as amended (20)
10.12	Stock Purchase Agreement dated as of June 19, 1996 by and among Mueller Co., Tyco Valves Limited, Watts Investment Company, Tyco International Ltd. and the Registrant (11)
10.13	Note Purchase Agreement dated as of May 15, 2003 between the Registrant and the Purchasers named in Schedule A thereto relating to the Registrant's \$50,000,000 4.87% Senior Notes, Series A, due May 15, 2010 and \$75,000,000 5.47% Senior Notes, Series B, due May 15, 2013 (7)
10.14	Form of 4.87% Senior Note due May 15, 2010 (7)
10.15	Form of 5.47% Senior Note due May 15, 2013 (7)
10.16*	Watts Water Technologies, Inc. 2004 Stock Incentive Plan, as amended (20)
10.17*	Non-Employee Director Compensation Arrangements (1)
10.18*	Watts Water Technologies, Inc. Supplemental Employees Retirement Plan as Amended and Restated Effective May 4, 2004, First Amendment effective March 1, 2005 and Second Amendment effective January 1, 2008
10.19*	Form of Incentive Stock Option Agreement under the Watts Water Technologies, Inc. 2004 Stock Incentive Plan (19)
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10.26	Subsidiary Guaranty, dated as of April 27, 2006, in connection with the Registrant's 5.85% Senior Notes due April 30, 2016 executed by the subsidiary guarantors party thereto, including the form of Joinder to Subsidiary Guaranty (4)
10.27	First Amendment, dated as of April 27, 2006, to Note Purchase Agreement dated as of May 15, 2003 among the Registrant and the purchasers named therein (4)
10.28	Amended and Restated Credit Agreement, dated as of April 27, 2006, among the Registrant, certain subsidiaries of the Registrant as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer and the other lenders referred to therein (4)
10.29	Amended and Restated Guaranty, dated as of April 27, 2006, by the Registrant, the Subsidiaries

of the Registrant set forth therein and Watts Industries Europe B.V., in favor of Bank of America, N.A. (4)

- 10.30* Resignation Agreement dated October 16, 2007 between the Registrant and William D. Martino (18)
 - 11 Statement Regarding Computation of Earnings per Common Share (13)
 - 21 Subsidiaries
 - 23 Consent of KPMG LLP
 - 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 to 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. Section 1350
 - 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350
-

- (1) Incorporated by reference to the Registrant's Current Report on Form 8-K dated February 5, 2007 (File No. 001-11499).
 - (2) Incorporated by reference to the Registrant's Current Report on Form 8-K dated November 14, 1991 (File No. 001-11499).
 - (3) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002 (File No. 001-11499).
 - (4) Incorporated by reference to the Registrant's Current Report on Form 8-K dated April 27, 2006 (File No. 001-11499).
 - (5) Incorporated by reference to the Registrant's Form S-1 (No. 33-6515) as part of the Second Amendment to such Form S-1 dated August 21, 1986.
 - (6) Incorporated by reference to Amendment No. 1 to the Registrant's Annual Report on Form 10-K for year ended June 30, 1992 (File No. 001-11499).
 - (7) Incorporated by reference to the Registrant's Current Report on Form 8-K dated May 15, 2003 (File No. 001-11499).
 - (8) Incorporated by reference to the Registrant's Current Report on Form 8-K dated February 8, 2005 (File No. 001-11499).
 - (9) Incorporated by reference to the Registrant's Annual Report on Form 10-K for year ended June 30, 1996 (File No. 001-11499).
 - (10) Incorporated by reference to the Registrant's Form S-8 (No. 333-32685) dated August 1, 1997.
 - (11) Incorporated by reference to the Registrant's Current Report on Form 8-K dated September 4, 1996 (File No. 001- 11499).
 - (12) Incorporated by reference to the Registrant's Annual Report on Form 10-K for year ended June 30, 1997 (File No. 001- 11499).
 - (13) Incorporated by reference to notes to Consolidated Financial Statements, Note 2 of this Report.
-

- (14) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 3, 2005 (File No. 001-11499).
 - (15) Incorporated by reference to the Registrant's Annual Report on Form 10-K for year ended June 30, 1999 (File No. 001-11499).
 - (16) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for quarter ended September 30, 2000 (File No. 001-11499).
 - (17) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-11499).
 - (18) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 (File No. 001-11499).
 - (19) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 26, 2004 (File No. 001-11499).
 - (20) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended July 1, 2007 (File No. 001-11499).
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* Management contract or compensatory plan or arrangement.

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PENSION PLAN

(As Amended and Restated Effective as of January 1, 2006)

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INTRODUCTION

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

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

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

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

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

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

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

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

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

Effective October 15, 2003 Watts Industries, Inc. changed its name to Watts Water Technologies, Inc. and changed the name of the Plan to Watts Water Technologies, Inc. Pension Plan.

Additional amendments to the Plan have been made adding additional Employers and making other changes.

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

ARTICLE 1—DEFINITIONS

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

- 1.01 "Accumulated Contributions Account"** means (i) the sum of the amounts, if any, contributed prior to January 1, 1987 by the Participant to the Pension Plan for Employees of Spence Engineering Company, plus (ii) 5% interest per year through December 31, 1987 and at the rate(s) provided under Section 411(c)(2)(C)(iii) of the Code from January 1, 1988 to the first day of the calendar month coincident with or immediately following the date of withdrawal or the date of benefit commencement.
- 1.02 "Actuarial Equivalent"** or any term of similar import, wherever used in the Plan, means a benefit of equivalent value determined as follows:
- (a) For purposes of any determination requiring actuarial equivalence under Article 15:
 - (1) For determination dates occurring prior to the Plan Year beginning January 1, 2006, the Actuarial Equivalent will be determined using a 5% interest rate and the UP-1984 Mortality Table for employees and the UP-1984 Mortality Table set back three years for beneficiaries;
 - (2) For determination dates occurring beginning on or after January 1, 2006, the Actuarial Equivalent will be determined using a 5% interest rate and the mortality table prescribed in Revenue Ruling 2001-62.
 - (b) For purposes of Section 8.05, 12.01, 12.02, or for a form of payment that decreases during the life of the Participant merely because of the cessation or reduction of Social Security supplements, and for any lump sum distribution date occurring on or after January 1, 2003, Actuarial Equivalent will be determined by using the mortality table defined in Code Section 417(e)(3)(A)(ii)(I), and using an interest rate equal to the rate defined in Code Section 417(e)(3)(A)(ii)(II) for the month of November immediately preceding the Plan Year of the distribution date. For purposes of this subsection, the term "distribution date" means the date as of which an amount is paid.
 - (c) For purposes of Article 13, the Actuarial Equivalent will be determined as specified in regulations promulgated by the Pension Benefit Guaranty Corporation.
 - (d) For all other purposes, the Actuarial Equivalent will be determined using a 6% interest rate and the mortality table prescribed in Revenue Ruling 2001-62.
- 1.03 "Actuary"** means the actuarial consultant or actuarial consultants designated from time to time to make actuarial computations in connection with the Plan.
- 1.04 "Affiliated Employer "** means any of the following (other than the Employer):
- (a) Any corporation which is a member of a controlled group of corporations which includes the Employer, determined under the provisions of Section 414(b) of the Code;
 - (b) Any trade or business which is under common control (as defined in Section 414(c) of the Code) with the Employer;
 - (c) Any organization which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Employer; and
 - (d) Any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.

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

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

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

In no event shall a Participant's Compensation taken into account under the Plan for any Plan Year exceed \$150,000 or such other amount as the Secretary of the Treasury may determine for such Plan Year in accordance with Section 401(a)(17) of the Code. Any change in the dollar amount set forth above as adjusted by the Secretary of the Treasury in accordance with Section 401(a)(17) of the Code shall apply only to Compensation taken into account for Plan Years beginning with the Plan Year in which such change is effective.

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

For purposes of this definition of Compensation, contributions pursuant to a cafeteria plan established under Section 125 of the Code shall include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as a contribution under Section 125 of the Code only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

Notwithstanding any provision of the Plan the contrary, in no event shall a Participant's Compensation taken into account under the Plan for any Plan Year beginning on or after January 1, 2002 exceed the applicable limit specified in Code Section 401(a)(17)(A) for any Plan Year. This dollar limit on Compensation shall be adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment shall apply only to Compensation taken into account for Plan Years beginning with the Plan Year in which such increase is effective.

For purposes of determining benefit accruals in Plan Years beginning after December 31, 2001 for Participants who earn an Hour of Service after December 31, 2001, Compensation for any prior Plan Year shall be limited to \$200,000.

- 1.10 "Contingent Annuitant"** means the person designated by the Participant to receive a benefit under the Contingent Annuitant Option following the death of the Participant in accordance with Article 8.
- 1.11 "Covered Compensation"** means, for any Plan Year, the average (without indexing) of the Social Security Taxable Wage Bases in effect at the beginning of the Plan Year under Section 230 of the Social Security Act for each calendar year during the 35-year period ending with the last day of the calendar year in which the Participant attains or will attain his or her Social Security Retirement Age. In determining a Participant's Covered Compensation for a Plan Year, the Social Security Taxable Wage Base for the current Plan Year and any subsequent Plan Year shall be assumed to be the same as those in effect for the Plan Year for which the determination is being made. A Participant's Covered Compensation for any Plan Year after the 35-year period is the Participant's Covered Compensation for the Plan Year in which the Participant attained his or her Social Security Retirement Age.
- A Participant's Covered Compensation shall be automatically adjusted for each Plan Year in accordance with these rules.
- 1.12 "Effective Date"** means January 1, 1997 for this restated Plan. The original Effective Date of the Plan is January 1, 1985.
- 1.13 "Eligible Employee"** means any person who is an Employee of the Employer and who is paid on a salaried basis, including any officer or director engaged in a capacity other than solely as a director. The term "Employee" shall not include any person employed by the Employer who is covered under a collective bargaining agreement which does not provide for this Plan, or any Employee who is a leased employee within the meaning of Section 414(n)(2) of the Code.
- 1.14 "Employee"** means any person currently employed by the Employer or an Affiliated Employer. The term Employee also includes any leased employees of the Employer or an Affiliated Employer within the meaning of Section 414(n)(2) of the Code to the extent such employees are deemed to be "Employees" in accordance with the provisions of Section 16.04.
- 1.15 "Employer"** means Watts Water Technologies, Inc. (formerly known as Watts Industries, Inc.) or any successor thereto, and any other entity now or hereafter affiliated with Watts Water Technologies, Inc. which adopts this Plan by vote of its Board and with the consent of Watts Water Technologies, Inc. The term "Employer" also includes all of the foregoing as the context may require. As of January 1, 1997, the following Affiliated Employers have adopted the Plan and are therefore considered to be an Employer: Watts Regulator Company, Spence Engineering Co., Inc., KF Industries, Inc., Leslie Controls, Inc., Rudolph Labranche, Inc., Watts Automatic Control Valve Company, Inc., Circle Seal Controls, Inc., Contromatics, Inc., Nicholson Steam Trap, Inc., KF Sales Corp., Anderson-Barrows Metal Corporation and Webster Valve, Inc. Effective January 1, 1998, the term "Employer" includes Ames Company, Inc. Effective October 18, 1999, Industrial Products Division, KF Industries, Inc. (including Eagle Value), Circle Seal Controls, Inc., (including Aerodyne Controls Corporation, Consolidated Precision Corp., Keane Controls Corporation, Atkomatic Valve Company), Leslie Controls, Contromatics, Inc. and Spence/Nicholson Engineering Company, Inc. are no longer considered to be an Employer due to their spin-off to CIRCOR International, Inc. Effective January 1, 2001, the term "Employer" includes McCraney (dba "Spacemaker") and Watts Radiant, Inc. (formerly called Watts Heatway, Inc.). Effective January 1, 2002, the term "Employer" includes Premier Manufactured Systems, Inc. and Watts Distribution Company, Inc. Effective June 20, 2005, the term "Employer" includes Alamo Water Refiners, Inc. Effective January 1, 2006, the term "Employer" includes Core Industries, Inc., Flowmatic Systems, Inc., H. F. Scientific, Inc., Orion Enterprises, Inc., and Watts Sea Tech, Inc.

- 1.16 "ERISA"** means the Employee Retirement Income Security Act of 1974, as amended from time to time. Reference to a specific provision of ERISA shall include such provision, any valid regulation or filing promulgated thereunder, and any provision of future law that amends, supplements, or supersedes such provision.
- 1.17 "Fiduciary"** means the Employer, the Committee, the Trustee, and/or other parties named as Fiduciaries pursuant to Section 10.1, but only with respect to the specific responsibilities of each for Plan and Trust administration, as described in Article 10.
- 1.18 "Final Average Compensation"** means the average of the Employee's Compensation for the sixty (60) consecutive months during the last one hundred and twenty (120) months of his Service prior to his Normal Retirement Date (as defined in Section 4.01) for which he received the highest total Compensation. If a Participant has not completed at least sixty (60) months of Service with the Employer, his Final Average Compensation shall be the average of his Compensation during his period of Service with the Employer.
- 1.19 "Highly Compensated Employee"** means any active Employee who performed services for the Employer or an Affiliated Employer during the Determination Year and who:
- (a) was a 5% owner (within the meaning of Section 416(i)(1)(B)(i) of the Code at any time during the Determination Year or the Look-Back Year; or
 - (b) received compensation from the Employer or an Affiliated Employer in excess of \$80,000 (as adjusted pursuant to 415(d) of the Code) during the Look-Back Year, and was among the to 20% of Employees when ranked on the basis of compensation paid during the Look-Back Year.

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

For purposes of determining an Employee's compensation under this Section 1.20, compensation shall mean the "Employee's Section 415 compensation" (as defined in Section 5.04(c)) reportable on Form W-2, plus all contributions made on behalf of the Employee by the Employer or an Affiliated Employer pursuant to a salary deferral agreement maintained by the Employer or an Affiliated Employer under any cash or deferred arrangement described in Section 401(k) of the Code or any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code by the Employer or Affiliated Employer, and effective January 1, 2001, any amounts deferred under Section 132(f)(4) of the Code.

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

- 1.20 "Limitation Year"** means the calendar year.
- 1.21 "Maximum Offset Allowance"** means at Social Security Retirement Age, (i), (ii), or (iii) below, whichever is applicable, (i) if a Participant's Social Security Retirement Age is 65, .0075 of his Social Security Compensation; (ii) if a Participant's Social Security Retirement Age is 66, .0068 of his Social Security Compensation; or (iii) if a Participant's Social Security Retirement Age is 67 or higher, .00625 of his Social Security Compensation, multiplied by his years of Benefit Service (up to a maximum of 25 years).

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

- 1.22 "Normal Retirement Age"** means the Participant's age on the later of: (a) the Participant's 65th birthday; or (b) the earlier of (i) five years of Service, or (ii) the fifth anniversary of the date on which the Participant began participation in the Plan, except with respect to a Participant who on December 31, 1991 was participating in the Spence Plan or who on October 1, 1993 was participating in the Henry Pratt Plan, the term "Normal Retirement Age" means the Participant's 65th birthday.
- 1.23 "Participant"** means any Employee who has satisfied the eligibility requirements for participation in the Plan as set forth in Article 3 and is a Participant hereof.
- 1.24 "Plan"** means the Watts Water Technologies, Inc. Pension Plan.
- 1.25 "Plan Administrator"** means the Committee, notwithstanding the fact that certain administrative functions under or with respect to this Plan may have been delegated to any other person, persons, or entity.
- 1.26 "Plan Year"** means the twelve-month period beginning on January 1 and ending on the following December 31.
- 1.27 "Prior Plan"** means each or both, as the context may require, of the following: (a) the Retirement Plan for Salaried Employees of the Watts Regulator Co., and (b) the Retirement Plan for Employees of the Webster Foundry Division.
- 1.28 "Retired Participant"** means a former Participant who has retired under the terms of the Plan and who has become eligible to receive benefits under the Plan.
- 1.29 "Social Security Benefit"** means the primary insurance benefit payable annually to an Employee under Title II of the Social Security Act as in effect on the date he terminates his employment or on his Normal Retirement Date (as defined in Section 4.01), if earlier, computed without regard to any reduction or loss of benefits which may result due to other income, delay in making application or any other reason; provided, however, that in the case of an Employee who terminates his employment prior to his attainment of age sixty-five, his Social Security Benefit shall be computed in accordance with the following provisions:
- (a) If such Employee has satisfied the eligibility requirements for Early Retirement under Section 4.02 prior to his termination, his Social Security Benefit will be based on the assumption that he received no further compensation from his termination date until he reached age sixty-five;
 - (b) If such Employee has not satisfied the requirements for Early Retirement under Section 4.02 prior to his termination, his Social Security Benefit will be based on the assumption that he remained in the Service of the Employer until he reached age sixty-five and that he continued to receive the same rate of compensation from the Employer as in effect on his termination date until he reached age sixty-five.

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

In the event the Participant furnishes the Committee with documentation from the Social Security Administration of his actual salary history on a year-by-year basis, the Participant's Social Security

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

- 1.30 "Social Security Compensation"** means the lesser of the Participant's Covered Compensation or the average of the Participant's Compensation in the three year period ending with the Plan Year of termination or retirement. In determining a Participant's Compensation for any such year, earnings in excess of the Social Security Taxable Wage Base in effect for each year shall be disregarded.
- 1.31 "Social Security Retirement Age"** means:
- (a) for persons born prior to 1938, age 65;
 - (b) for persons born in 1938 or later but prior to 1955, age 66; and
 - (c) for persons born in 1955 or later, age 67.
- 1.32 "Social Security Taxable Wage Base"** means the contribution and benefit limit in effect under Section 230 of the Social Security Act on the first day of the Plan Year.
- 1.33 "Sponsoring Employer"** means Watts Water Technologies, Inc. (formerly known as Watts Industries, Inc.) or any successor thereto.
- 1.34 "Terminated Participant"** means a former Participant who has ceased to be an Employee prior to his Normal Retirement Date (as defined in Section 4.01) for any reason other than death or retirement in accordance with the terms of the Plan.
- 1.35 "Trust"** means the agreement between the Employer and the Trustee which constitutes part of this Plan, or any other Trust created by agreement between the Employer and a Trustee named therein which shall also constitute a part of this Plan, as the same may be amended from time to time.
- 1.36 "Trust Fund" or "Trust"** means the Watts Water Technologies, Inc. Master Trust, maintained in accordance with the terms of the agreement under which the Trust was established, as it may be amended from time to time.
- 1.37 "Trustee"** means the person, persons, or entity named as Trustee, or any successor to that office.

ARTICLE 2—SERVICE

2.01 SERVICE PRIOR TO JANUARY 1, 1985

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

2.02 CREDITING OF SERVICE ON OR AFTER JANUARY 1, 1985

With respect to employment on and after January 1, 1985, Service shall be determined as follows:

- (a) An Employee must accumulate at least 1,000 Hours of Service during a 12-month computation period in order to be credited with a year of Service.
- (b) The 12-month computation period for purposes of determining a year of Service for vesting under Section 6.02 is the Plan Year. Effective January 1, 2005, for purposes of determining a year of Service for vesting under Section 6.02, if an Eligible Employee does not have 1,000 Hours of Service in a Plan Year because he or she commences or re-commences employment with the Employer after the first day of a Plan Year or terminates his or her employment or retires prior to the end of a Plan Year, he or she shall be credited with one (1) year of Service if the sum of the partial years of Service for each Plan Year containing such commencement (or recommencement) of employment and each corresponding Plan Year containing his or her subsequent termination of employment (or retirement) totals one (1) or more. A partial year of Service is equal to the ratio of the Participant's Hours of Service credited during each Plan Year over 1,000.
- (c) The 12-month computation period for purposes of determining a year of Service for eligibility under Section 3.01 is the 12-month period beginning when the Employee first performs an Hour of Service and the subsequent computation periods shall be the Plan Year beginning with the Plan Year that includes the first anniversary of the date the Participant first performs an Hour of Service. The 12-month computation period for purposes of determining a year of Service for Benefit Service purposes as set forth in Section 2.05 is the Plan Year.
- (d) During any computation period during which an Employee's Hours of Service cannot be determined, the Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes an Hour of Service.
- (e) Notwithstanding any other provision of this Section 2, Service with the entities listed in Section 3.01(b) shall be taken into account for eligibility and vesting purposes.

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

Service shall be considered broken by the following, provided that Service will not be broken during any Plan Year in which an Employee completes more than 500 Hours of Service:

- (a) voluntary quit;
- (b) discharge;
- (c) illness or injury in excess of one year;
- (d) layoff in excess of one year;
- (e) authorized leave of absence in excess of one year;
- (f) failure to return to the Service of the Employer upon the expiration of an authorized leave of absence; or within the period of time entitling an Employee to reemployment rights after discharge from the Armed Forces of the United States of America.

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

2.02.2 RECREDITING OF SERVICE UPON REEMPLOYMENT

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

2.03 HOUR OF SERVICE DEFINED

Hour of Service means:

- (a) Each hour for which an Employee is directly or indirectly paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer, such hours to be credited to the computation period in which the duties are performed;
- (b) Each hour for which an Employee is directly or indirectly paid or entitled to payment on account of a period of time during which no duties are performed for the Employer or an Affiliated Employer (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), lay-off, jury duty, military duty or leave of absence (but excluding any payments made or due under a plan maintained solely for the purpose of complying with workmen's compensation, unemployment compensation, or disability insurance laws); provided, however, that no more than 501 hours shall be credited to an Employee under this paragraph (b) on account of any single continuous period of absence;
- (c) Each hour, not credited under (a) or (b) above during any absence listed in Section 2.02, which does not break his Service, provided that the Employee retires or returns to the employ of the Employer or an Affiliated Employer upon the expiration of such absence;
- (d) Each hour not counted under paragraphs (a), (b), or (c) above for which back pay, irrespective of mitigation of damages, is awarded or agreed to by the Employer or an Affiliated Employer; such hours to be credited under the computation period to which the back pay award or agreement is applicable;
- (e) Hours credited under paragraphs (b) and (c) above shall be computed on the basis of the number of hours for which the Employee would have been compensated if he had continued to work his regular work schedule during his period of absence; provided, however, that in the case of hours credited under paragraph (b), such number of hours shall not be less than the number of hours the Employee would receive if such computation had been made in accordance with the provisions of Section 2530.200b-2(b) and (c) of the Labor Department Regulations which are incorporated herein by reference.
- (f) Solely for purposes of determining whether a Break-in-Service has occurred with respect to Section 2.02.1, each non-compensated hour during a period of absence from the Employer (i) by reason of the Employee's pregnancy, (ii) by reason of the birth of the Employee's child, (iii) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement shall be credited to the Employee. For purposes of this subsection (f) the following special rules will apply:
 - (i) any Hour of Service credited hereunder with respect to an absence shall be credited (A) only in the Plan Year in which the absence begins, if the Employee would be prevented from incurring a Break-in-Service in such year solely because of Hours of

Service credited hereunder for such absence, or (B) in any other case in the immediately following Plan Year;

- (ii) no Hours of Service shall be credited hereunder unless the Employee furnishes the Committee with such information as the Committee may reasonably require (in such form and at such time as the Committee may reasonably require) establishing (A) that the absence from work is an absence described hereunder, and (B) the number of days for which the absence lasted;
- (iii) in no event shall more than 501 Hours of Service be credited to an Employee hereunder for any absence by reason of any one pregnancy or the placement of any one child.

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

2.04 BENEFIT SERVICE

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

With respect to employment on and after January 1, 1985, Benefit Service, for purposes of determining a Participant's benefit under the Plan means his years of Service earned as an Eligible Employee excluding any service prior to such Eligible Employee's twenty first birthday. For purposes of this Section 2.05, a year of Service is any Plan Year in which the Participant is credited with 1000 Hours of Service. During any computation period in which an Eligible Employee's Hours of Service cannot be determined, the Eligible Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes one Hour of Service.

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

2.05 VETERAN'S BENEFITS

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

ARTICLE 3—PARTICIPATION

3.01 PARTICIPATION REQUIREMENTS

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

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

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

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

- (i) Effective January 1, 1987, a nonunion employee of James Jones Company on or after December 19, 1986 shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with James Jones Company from the later of December 31, 1969 or date of hire by James Jones Company and prior to January 1, 1987 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1987 and shall end on the earlier of September 4, 1996 or the date a Participant terminates his Service.
- (ii) Effective January 1, 1989, an Eligible Employee of KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or Watts Automatic Control Valve Company, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or Watts Automatic Control Valve Company, Inc. prior to January 1, 1989 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1989. Service with KF Industries, Inc. and Leslie Controls, Inc. for all purposes shall not be taken into account after October 18, 1999.
- (iii) Effective July 19, 1990, an Eligible Employee of Nicholson Steam Trap, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of Article II of the Plan, service with Nicholson Steam Trap, Inc. prior to July 19, 1990 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after July 19, 1990. Service with Nicholson Steam Trap, Inc. for all purposes shall not be taken into account after October 18, 1999.
- (iv) Effective September 7, 1990, an Eligible Employee of Circle Seal Controls, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Circle Seal Controls, Inc. prior to September 7, 1990 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after September 7, 1990. Service with Circle Seal Controls, Inc. for all purposes shall not be taken into account after October 18, 1999.
- (v) Effective January 1, 1991, an Eligible Employee of Industrial Products Division shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Industrial Products Division prior to January 1, 1991 shall be recognized for all purposes. Service with Industrial Products Division for all purposes shall not be taken into account after October 18, 1999.
- (vi) Effective January 1, 1991, an Eligible Employee of Eagle Valve shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Eagle Valve prior to January 1, 1991 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1991. Service with Eagle Valve for all purposes shall not be taken into account after October 18, 1999.

- (vii) Effective December 31, 1991, an Eligible Employee of Spence Engineering Company, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with of Spence Engineering Company, Inc. prior to January 1, 1992 shall be recognized for all purposes. Service for benefit accrual purposes shall begin on or after January 1, 1992. Service with of Spence Engineering Company, Inc. for all purposes shall not be taken into account after October 18, 1999.
- (viii) Effective January 1, 1993, an Eligible Employee of Contromatics, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Contromatics, Inc. prior to January 1, 1993 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1993. Service with Contromatics, Inc. for all purposes shall not be taken into account for October 18, 1999.
- (ix) Effective October 1, 1993 an Eligible Employee of Henry Pratt Company shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Henry Pratt Company prior to October 1, 1993 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after October 1, 1993 and shall end on the earlier of September 4, 1996 or the date a Participant terminates his Service.
- (x) Effective August 31, 1995, a salaried employee of Keane Controls Corporation who became an employee of Circle Seal Controls, Inc. shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of August 31, 1995 or the date such Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Keane Controls Corporation, prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing August 31, 1995. Service with Keane Controls Corporation for all purposes shall not be taken into account after October 18, 1999.
- (xi) Effective January 1, 1996 an Eligible Employee of Anderson-Barrows Metal Corporation shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. Subject to the rules of the Plan, service with Anderson-Barrows Metal Corporation prior to January 1, 1996 shall be recognized for vesting and eligibility purposes. Service for benefit accrual purposes shall begin on or after January 1, 1996.
- (xii) Effective January 1, 1997, an employee of Consolidated Precision Corp. who became an employee of Circle Seals Controls shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of January 1, 1997 or the date the Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Consolidated Precision Corp. prior to its acquisition by the Employer shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1997. Service with Consolidated Precision Corp. for all purposes shall not be taken into account after October 18, 1999.
- (xiii) Effective January 1, 1998, a salaried employee of Ames Company, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the

later of January 1, 1998 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Ames Company, Inc. prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1998.

- (xiv) Effective March 17, 1998, a salaried employee of Atkomatic Valve Company who became an employee of Circle Seal Controls, Inc. shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of March 17, 1998 or the date the Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Atkomatic Valve Company, prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing March 17, 1998. Service with Atkomatic Valve Company for all purposes shall not be taken into account after October 18, 1999.
- (xv) Effective April 1, 1998, a salaried employee of Aerodyne Controls Corporation who became an Eligible Employee of Circle Seal Corporation on January 5, 1998 shall be eligible to participate in the Plan on the first day of the month coinciding with or next following the date he attains age 21 and completes one year of Service. Service with Aerodyne Controls Corporation prior to January 5, 1998 shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing April 1, 1998. Service with Aerodyne Controls Corporation for all purposes shall not be taken into account after October 18, 1999.
- (xvi) Effective January 1, 2001, a salaried employee of McCraney, Inc. (dba "Spacemaker") or Watts Heatway, Inc. (now called Watts Radiant, Inc.) shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2001 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with of McCraney, Inc. (dba "Spacemaker") or Watts Heatway, Inc. (now called Watts Radiant, Inc.) prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2001.
- (xvii) Effective November 1, 2001, a salaried employee of Powers Process Controls Division of Marks Controls Corporation (PPC) shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of November 1, 2001 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with PPC prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing November 1, 2001.
- (xviii) Effective January 1, 2002, a salaried employee of Premier Manufactured Systems, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2002 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with of Premier Manufactured Systems, Inc. prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2002.

- (xix) Effective July 1, 2002, a salaried employee of Hunter Innovations, Inc. ("Hunter") who became an Employee as a result of Hunter's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of July 1, 2002 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Hunter Innovation, Inc., Watts Industries, Inc. and Ames Company, Inc. prior to Hunter's acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing July 1, 2002.
- (xx) Effective June 20, 2005, a salaried employee of Alamo Water Refiners, Inc. ("Alamo") who became an Employee as a result of Alamo's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of June 20, 2005 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Alamo prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing June 20, 2005.
- (xxi) Effective January 1, 2006, a salaried employee of Flowmatic Systems, Inc. ("Flowmatic") who became an Employee as a result of Flowmatic's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Flowmatic prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.
- (xxii) Effective January 1, 2006, a salaried employee of H.F. Scientific, Inc. ("HFS") who became an Employee as a result of HFS' acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with HFS prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.
- (xxiii) Effective January 1, 2006, a salaried employee of Orion Enterprises, Inc. ("Orion") who became an Employee as a result of Orion's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Orion prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.
- (xxiv) Effective January 1, 2006, a salaried employee of Watts Seatech, Inc. ("Seatech") who became an Employee as a result of Seatech's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Seatech prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and

vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.

- (xxv) Effective January 1, 2006, a salaried employee of Core Industries, Inc. ("Core") who became an Employee as a result of Core's acquisition by the Sponsoring Employer (the "Core Acquisition") shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Core prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006. In the case of any salaried Employee (a) who was employed by Core in its DeZurik line of business in St. Pauls, North Carolina, and (b) who became an Employee in June of 2006, such Employee's service with Core prior to the Core Acquisition shall be taken into account for eligibility and vesting; however, such Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing July 1, 2006.

3.02 PARTICIPATION UPON REEMPLOYMENT

- (a) Subject to the provisions of paragraph (b) below, each Participant who is reemployed following a Break in Service pursuant to Section 2.02.1 shall participate again as of his reemployment date provided he has met the requirements of Section 2.02.2.
- (b) For participants who participated in the Spence Plan on December 31, 1991
- (i) Reemployment of Terminated Participant who is Vested in Retirement Benefit.
- a. In the event of the reemployment of a Terminated Participant who has met the requirements for a Vested Benefit under Section 6.02(a), such Terminated Participant shall be entitled to participate in the Plan immediately upon reemployment.
- b. If such Terminated Participant has not received a refund of the balance in his Accumulated Contributions Account, his Benefit Service before his termination of employment will be fully restored and combined with his subsequent Benefit Service to calculate his benefit under the Plan upon his subsequent retirement or other termination of employment.
- c. If such Terminated Participant has received a refund of the balance in his Accumulated Contribution Account, he may repay such amount to the Employer pursuant to the requirements set forth in subparagraph (iii) below. If he repays such amount, his Benefit Service before his termination of employment will be fully restored and combined with his subsequent Benefit Service to calculate his benefit under the Plan upon his subsequent retirement or other termination of employment. If he does not repay such amount, upon his subsequent retirement or other termination of employment he shall be entitled to receive a benefit equal to the benefit provided in Section 5.03 as of his initial termination date plus a benefit calculated using the Benefit Service credited to him from the date of reemployment to his subsequent retirement or other termination of employment.
- (ii) Reemployment of Terminated Participant who is Not Vested in Retirement Benefit.
- a. In the event of the reemployment of a Terminated Participant who has not incurred a Break in Service, but who has not met the requirements for a Vested Benefit under

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

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

(iii) Repayment.

A Terminated Participant who has received a refund of the balance in his Accumulated Contribution Account and who has subsequently resumed employment prior to incurring five consecutive one-year Breaks in Service may repay to the Employer for credit to the Fund the full amount of such cash settlement with interest compounded annually at the rate of 5% per annum (or such other rate as may be prescribed by the Secretary of the Treasury) from the date as of which such cash settlement was determined to the date of repayment. Repayment must be made prior to the occurrence of the earlier of five consecutive one-year Breaks in Service, or five years after the date of reemployment.

ARTICLE 4—RETIREMENT DATES

4.01 NORMAL RETIREMENT DATE

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

4.02 EARLY RETIREMENT DATE

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

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

4.03 DEFERRED RETIREMENT DATE

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

ARTICLE 5—RETIREMENT BENEFITS

5.01 FORM OF NORMAL RETIREMENT BENEFIT

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

5.02 SPOUSE JOINT AND SURVIVOR ANNUITY

In lieu of the life annuity payable under Section 5.01, a Participant who is married on his benefit commencement date shall receive his retirement benefit in the form of a Spouse Joint and Survivor Annuity as described in Section 5.02.1, provided he has not made an election under Section 5.02.2 to have his benefit paid under the life annuity form described in Section 5.01 or under an optional form described in Section 5.05.1 or Article 8.

5.02.1 AMOUNT OF SPOUSE JOINT AND SURVIVOR ANNUITY

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

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

5.02.2 ELECTION OUT OF SPOUSE JOINT AND SURVIVOR ANNUITY

A married Participant may elect, pursuant to Section 5.02.4, not to receive his benefit in the form of the Spouse Joint and Survivor Annuity by delivering to the Committee, during the election period described below, his written election to have his benefits paid under the form described in Section 5.01 or under an optional form described in Section 5.05.1 or Article 8. The election period with respect to the life annuity form described in Section 5.01 and the Spouse Joint and Survivor Annuity shall be a ninety (90) day period ending on the Participant's benefit commencement date. The Participant may revoke such election by filing a written revocation with the Committee at any time during such election period. The election by a married Participant of an optional form described under Section 5.05.1 or Article 8 shall be made in accordance with the provisions of Section 5.02.4, and Section 5.05.1 or Article 8, whichever is applicable.

5.02.3 INFORMATION FURNISHED TO PARTICIPANT

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

- (a) The terms and conditions of the Spouse Joint and Survivor Annuity;
- (b) The Participant's right to elect, and the effect of electing, to waive the Spouse Joint and Survivor Annuity;
- (c) The rights of the spouse;
- (d) The right to revoke, and the effect of revoking, an election to waive the Spouse Joint and Survivor Annuity;
- (e) The eligibility conditions and material features of the optional forms of payment available under the Plan;

- (f) The relative values of the optional forms of payment available under the Plan; and
- (g) Such other information as may be required under applicable regulations.

The Committee shall also furnish the Participant, upon his written request made within sixty (60) days following the date he is furnished such general information, additional information explaining the financial effect upon his pension (in terms of dollars per pension payment) of making such election. Such additional information shall be furnished to the Participant within thirty (30) days following the date the Participant's written request is received by the Committee.

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

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

5.02.4 SPOUSAL CONSENT REQUIRED

Notwithstanding anything herein to the contrary, the election by a married Participant of an optional form described in Article 8 or Section 5.05.1 or the normal form described in Section 5.01 shall not take effect unless:

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

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

5.03 AMOUNT OF NORMAL RETIREMENT BENEFIT

- (a) Subject to the provisions of Section 5.03.1 and 5.04, the annual Normal Retirement Benefit payable to a Participant who retired under the Plan on or after January 1, 1985 and on or after his Normal Retirement Date but prior to January 1, 1986 shall be an amount equal to forty percent (40%) of his Final Average Compensation less fifty percent (50%) of his Social Security Benefit, multiplied by a fraction (not to exceed one) the numerator of which is his years (and fractions thereof) of his Benefit Service and the denominator of which is 30.
- (b) Subject to the provisions of Section 5.03.1 and 5.04, the annual Normal Retirement Benefit payable to a Participant who retired under the Plan on or after January 1, 1986 and on or

after his Normal Retirement Date but prior to January 1, 1989 shall be an amount equal to forty-five percent (45%) of his Final Average Compensation less fifty percent (50%) of his Social Security Benefit, multiplied by a fraction not to exceed one) the numerator of which is his years (and fractions thereof) of his Benefit Service and the denominator of which is 25.

- (c) Subject to the provisions of paragraphs (d) and (e) and Sections 5.03.1 and 5.04, the annual Normal Retirement Benefit payable to a Participant who retires under the Plan on or after January 1, 1989 and on or after his Normal Retirement Date shall be an amount equal to the greater of (i), (ii), (iii) or (iv) below:
- (i) 1.67% times the Participant's Final Average Compensation less the Maximum Offset Allowance, the result of which is multiplied by his years of Benefit Service (maximum of 25 years);
 - (ii) 1.00% times the Participant's Final Average Compensation multiplied by his years of Benefit Service (maximum of 25 years);
 - (iii) the Participant's accrued benefit as of March 15, 1990 (or December 31, 1988 if the Participant is a highly compensated employee as defined in Section 414(q)(1)(A) or (B) of the Code);
 - (iv) the Participant's accrued benefit under the Plan determined as of the December 31 preceding the date of determination.
- (d) For Participants Who Participated in the Spence Plan on December 31, 1991
- (i) Notwithstanding the foregoing provisions of this Section, with respect to a Participant who participated in the Spence Plan on December 31, 1991 and who retires under this Plan on or after January 1, 1994 and on or after his annual Normal Retirement Date, his annual Normal Retirement Benefit shall equal the sum of (A) and (B) but in no event less than (C) where:
 - (A) is equal to the sum of (1), (2), (3), and (4) below:
 - (1) 5/8 of 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned prior to June 1, 1975 under the Spence Plan.
 - (2) 3/4 of 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned on and after June 1, 1975 through May 31, 1980 under the Spence Plan.
 - (3) 7/8 of 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned on and after June 1, 1980 through May 31, 1985 under the Spence Plan.
 - (4) 1% of the Participant's Final Average Compensation multiplied by his years of benefit service earned on and after June 1, 1985 through December 31, 1986 under the Spence Plan.

The amount of the benefit calculated in accordance with this paragraph (d)(i)(A) shall be actuarially increased to reflect the change in the normal form of benefit payment from a 5 year certain and continuous annuity to a single life annuity.
 - (B) is equal to the greater of (1) or (2) below:
 - (1) 1.67% times the Participant's Final Average Compensation less the Maximum Offset Allowance, the result of which is multiplied by his years of Benefit Service earned under the Spence Plan on or after January 1, 1987 but prior to

January 1, 1992, and Benefit Service earned under the Plan on or after January 1, 1992 (maximum of 25 years).

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

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

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

- (1) the Actuarial Equivalent of the Participant's Accumulated Contributions Account.
- (2) the Participant's accrued benefit determined under the Spence Plan as of December 31, 1991.

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

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

- (i) is the Participant's accrued benefit earned under the Henry Pratt Plan as of September 30, 1993 multiplied by a fraction, the numerator of which equals the Participant's Final Average Compensation determined as of his retirement date and the denominator of which equals the Participant's Final Average Compensation determined as of December 31, 1993.
- (ii) is the Participant's accrued benefit, if any, determined in accordance with Section 5.03(c) for years of Benefit Service earned on or after October 1, 1993 under the Plan.

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

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

For purposes of this Section 5.03(e), "Combined Total Benefit Service" means service earned under the Henry Pratt Plan and Benefit Service earned under the Plan. In the event a Participant's Combined Total Benefit Service exceeds twenty-five (25) years on his date of

retirement with the Employer, the Participant's Normal Retirement Benefit shall be determined by decreasing his years of service earned under the Henry Pratt Plan by the number of years which exceeds twenty-five (25) and the benefit calculated under paragraph (e)(i) above shall be recalculated using the Participant's accrued benefit as of September 30, 1993.

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

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

- (i) is the Transferred Jameco Participant's accrued benefit based on the formula under Part B of the Plan in effect as of the transfer date and determined based upon (1) his years of Service under Part B of the Plan as of the transfer date and (2) his Average Monthly Compensation under Section 1.05 of Part B and his Covered Compensation under Section 1.16 of Part B as of his retirement or termination date.
- (ii) is the Transferred Jameco Participant's accrued benefit, if any, determined in accordance with Section 5.03(c) for years of Benefit Service earned on or after transfer date.

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

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

5.03.1 MINIMUM BENEFIT FOR PARTICIPANTS ON JANUARY 1, 1979

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

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

5.03.2 ACCRUED BENEFIT

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

(including fractions thereof) that the Participant has completed and the denominator is the number of years of Benefit Service (including fractions thereof) that the Participant would have completed if he had remained in the employ of the Employer to his Normal Retirement Date.

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

Notwithstanding the above, in the case of a Participant whose Compensation for a Plan Year beginning prior to January 1, 1994 exceeded \$150,000, such Participant's Accrued Benefit shall not be less than an amount equal to the sum of his or her Accrued Benefit determined as of December 31, 1993 plus an amount equal to the Participant's Accrued Benefit determined in accordance with the provisions of this Section 5.03.2 based on Years of Benefit Service earned by the Participant after December 31, 1993.

5.04 MAXIMUM RETIREMENT BENEFITS

- (a) For Plan Years beginning after 1986, the actual or projected annual amount of a Participant's benefit payable within a Limitation Year shall not exceed the lesser of (i) and (ii) below:
 - (i) the dollar limitation specified in Code Section 415(b)(1)(A) (The new limit specified in Section 415(b)(1)(A) of the Code shall apply only to Participants who are credited with at least one Hour of Service on or after the first day of the first Limitation Year beginning after December 31, 2001.), or
 - (ii) 100% of the Participant's average annual Section 415 Compensation (as defined in paragraph (c) below) for the three consecutive calendar years (or, if his period of employment is less than three years, for his entire period of employment) as a Participant during which he received the greatest aggregate Section 415 Compensation;
- (b) In no event shall the limitations in paragraph (a) above be less than \$10,000 if the Participant has not at any time participated in a defined contribution plan maintained by the Employer or an Affiliated Employer.
- (c) The term "Section 415 Compensation" means wages, salaries, and fees for professional services and other amounts received from the Employer and all Affiliated Employers during the Limitation Year (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer, to the extent such amounts are includable in gross income, including, but not limited to, overtime pay, tips, bonuses, commissions to paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, fringe benefits, reimbursements, and expense allowances, and excluding the following:
 - (i) amounts contributed by the Employer or Affiliated Employer on behalf of the Employee pursuant to a salary deferral agreement under this Plan or any other cash or deferred arrangement described in Section 401(k) of the Code, to any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code, or to any other plan of deferred compensation, and which are not includable in the Employee's gross income for the taxable year in which contributed, or any distributions from a plan of deferred compensation;
 - (ii) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Employee either becomes free transferable or is no longer subject to a substantial risk of forfeiture;

- (iii) amounts realized with respect to the sale, exchange, or other disposition of stock acquired under a qualified stock option; and
- (iv) other amounts which receive special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity described in Section 403(b) of the Code (whether or not the amounts are excludable from the Employee's gross income).

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

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

For Limitation Years beginning on or after January 1, 1998, for purposes of determining Section 415 Compensation, amounts included pursuant to Section 125 of the Code shall include amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

- (d) The dollar limitation described in paragraph (a)(i) above shall be increased by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code. Such adjustment factor shall be applied to all Participants, including Participants and Beneficiaries receiving benefits from the Plan and to such items as the Secretary shall prescribe.
- (e) For Limitation Years beginning prior to January 1, 2002, if the benefit payable to a Participant commences prior to the Participant's Social Security Retirement Age, but on or after the date he attains age 62, the maximum annual amount determined under paragraph (a)(i) above shall be reduced as follows:
 - (i) if the Participant's Social Security Retirement age is 65, by 5/9ths of 1% for each month by which the commencement of payment of his benefits precedes the month in which he attains age 65; or
 - (ii) if the Participant's Social Security Retirement age is 66 or 67, by 5/9ths of 1% for each of the first 36 months and 5/12ths of 1% for each additional month by which the commencement of payment of his benefits precedes the month in which he attains his Social Security Retirement Age.

For Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences prior to age 62, the maximum dollar limitation defined in paragraph (a)(i), adjusted by paragraph (d), shall be the actuarial equivalent of such amount payable at age 62. For purposes of this paragraph, actuarial equivalent shall be based on the plan's early retirement reductions or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller amount.

- (f) Effective for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences after his or her attainment of age 65, the dollar limitation defined in

paragraph (a)(i) above, adjusted by paragraph (d), shall be increased so it is the actuarial equivalent of such amount payable commencing at age 65. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02(d), or the mortality table specified in Code Section 417(e)(3)(A)(ii)(I) and an interest rate of 5%, whichever produces the smaller increase.

- (g) The annual benefit is a retirement benefit under the Plan which is payable annually in the form of a single life annuity. If the benefit payable to a Participant is not in the form of a single life annuity nor in the form of a Spouse Joint and Survivor Annuity, then the maximum annual amount determined under paragraph (a) above shall be reduced in accordance with the applicable regulations so that it is the actuarial equivalent of such amount as payable in the normal form. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02(d) except that mortality shall be based on the mortality table specified in Section 417(e)(3)(A)(ii)(I) of the Code.
- (h) If the Participant has completed less than 10 years of Plan participation, the maximum annual amount determined under paragraph (a)(i) above shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Plan participation (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.
- (i) If the Participant has completed less than 10 years of Service, the maximum amount determined under Section paragraph (a)(ii) above (without regard to paragraph (a)(i) above) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Service (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.
- (j) In no event shall the provisions of paragraph (h) or paragraph (i) above reduce the limitations in paragraph (a) to an amount less than one tenth of such limitations, determined without regard to the provisions of paragraph (h) and paragraph (i).
- (k) If a Participant is, or has ever been, covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's annual benefits from all such plans may not exceed the maximum permissible amount.
- (l) **Transitional Rule.** Notwithstanding the foregoing provisions of this Section 5.04, the maximum limitation on annual benefits with respect to any person who was a Participant prior to January 1, 1983 and whose annual benefit (determined without regard to any changes in the plan after July 1, 1982 and without regard to cost-of-living adjustments, if any, occurring after July 1, 1982) as of December 31, 1982, exceeds the limitations set forth in this Section 5.04, shall be such Participant's annual benefit as of December 31, 1982; provided that such Participant's annual benefit did not exceed the maximum limitation thereon as of December 31, 1982.
- (m) Notwithstanding any other Plan provision to the contrary, with respect to distributions with benefit commencement dates occurring on or after January 1, 2003, the mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C), or (D) of the Code as set forth in Subsections (e), (f), or (g) of this Section 5.04 shall be the mortality table specified in Section 417(e)(3)(A)(ii)(I) of the Code.

- (n) Notwithstanding any provision in the Plan to the contrary, for Plan Years beginning in 2004 and 2005, when determining the maximum distribution under Code Section 415(b)(2)(E)(ii), the adjustment for optional forms of payment subject to Code Section 417(e)(3) will use an interest rate assumption of 5.5% or the rate used in the Plan (whichever provides a greater straight life annuity).

5.04.1 LIMITATION APPLICABLE TO DEFINED CONTRIBUTION PLAN PARTICIPANTS

- (a) If a Participant is also a participant in any defined contribution plan maintained by the Employer or an Affiliated Employer, the sum of the defined benefit plan fraction and the defined contribution plan fraction for any year shall not exceed 1.0 as provided in Section 415(e) of the Code and any regulations issued thereunder.
- (b) The defined benefit fraction for any Limitation Year is a fraction, the numerator of which is the sum of the Participant's projected annual benefits under all defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of 1.25 times the dollar limit determined under Sections 415(b) and 415(d) of the Code and adjusted in accordance with Section 5.04(h) and (i) for the Limitation Year, or 1.4 times 100% of the Participant's highest average annual Section 415 Compensation (including any adjustments under Section 415(b) of the Code) for any three consecutive years.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986 in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 1.25 times the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 of the Code for all Limitation Years beginning before January 1, 1987.

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

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

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

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0 times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

- (d) For the purpose of determining the denominators in the preceding two fractions, the maximum benefit allowable and the maximum annual additions shall be deemed to be equal to the lesser of:
 - (i) 140% of the percentage limits, or
 - (ii) 125% of the dollar limits provided in Sections 415(b) and 415(c) of the Code for each such year.
- (e) Any adjustment necessary to comply with the limitations of this section shall be made in the Participant's benefit payable under the relevant defined benefit plan; but under no circumstances may the accrued benefit of a Participant in a defined benefit plan decrease as a result of a Plan amendment to change the combined plan limits.
- (f) Effective January 1, 2000, the provisions of this Section 5.041 shall no longer be effective.

5.04.2 AFFILIATED EMPLOYERS

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

5.05 EARLY RETIREMENT BENEFIT

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

- (a) a benefit commencing on his Normal Retirement Date (as defined in Section 4.01) in an amount equal to his accrued Normal Retirement Benefit determined in accordance with the provisions of Section 5.03 or 5.031, whichever is applicable, and Section 5.03.2;
- (b) a reduced benefit commencing on his Early Retirement Date or the first day of any month thereafter but prior to his Normal Retirement Date, as elected by the Participant, which benefit shall be computed as in (a) above, reduced by 5/9 of 1% for each of the first sixty months by which commencement of benefits precedes his Normal Retirement Date, and by 5/18 of 1% for each month thereafter, if any, by which commencement of benefits precedes his Normal Retirement Date.

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

5.05.1 SOCIAL SECURITY OPTION

A Participant who is entitled to receive an Early Retirement Benefit and has elected to have such benefit commence prior to the date he is entitled to receive benefits under Title II of the Social Security Act, may elect to receive a Social Security Option under which he will receive a larger monthly benefit prior to the date he is first entitled to receive benefits under Title II of the Social Security Act and a smaller benefit after he is first entitled to receive benefits under Title II of the Social Security Act so that, to the extent possible, the Participant will receive a level monthly income when his payments under the Plan and his income under Title II of the Social Security Act are taken in to account; provided, however, that his payments under the Social Security Option will be the Actuarial Equivalent of the Early Retirement Benefit he would have received if he had not elected such an option.

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

5.06 DEFERRED RETIREMENT BENEFIT

(a) *Retirement Prior to Age 70^{1/2}*

Each Participant who continues in the employ of the Employer or an Affiliated Employer after attaining his Normal Retirement Age and retires prior to age 70^{1/2} shall be entitled upon actual retirement to receive a monthly Deferred Retirement Benefit. The Deferred Retirement Benefit payable under this paragraph (a) shall be determined in accordance with Section 5.03 or 5.03.1, whichever is applicable, based on the Participant's years of Benefit Service (including fractions thereof) as of his retirement date, and the rate of benefit in effect under the Plan on his retirement date.

(b) *Commencement of Benefits While Actively Employed*

Prior to January 1, 1997, the Deferred Retirement Benefit payable to a Participant who attains age 70^{1/2} and who continues to be an Employee shall be equal to the Participant's accrued benefit determined as of the last day of the Plan Year in which the Participant attains age 70^{1/2}. The Deferred Retirement Benefit payable under this paragraph (b) shall be determined in accordance with Section 5.03 or 5.03.1, whichever is applicable, and shall be payable in the form of a single life annuity. The Deferred Retirement Benefit shall commence no later than the January 1 immediately following the Plan Year in which the Participant attains age 70^{1/2}.

The monthly benefit of a Participant who has begun receiving benefits and who continues to be an Employee after his attainment of age 70^{1/2} shall be adjusted, effective on the January 1 following the Plan Year in which the Participant's benefit commenced and on each succeeding January 1 prior to the Participant's Deferred Retirement Date, to reflect the effect of changes in the Participant's accrued benefit since the previous January 1. The final adjustment shall be made as of the Participant's Deferred Retirement Date. Adjustments required by this paragraph shall include a reduction equal to the Actuarial Equivalent of any benefit payments already made with respect to the Participant. In no event, however, will the benefit payable to the Participant be reduced as a result of this paragraph. Furthermore, the operation of this paragraph will not affect the form of benefit payment previously elected by the Participant.

Any Participant, other than a 5% owner as defined in Code Section 416(i), who attains age 70^{1/2} after December 31, 1996 but before January 1, 2002 shall have the option to commence receiving retirement benefits at any time commencing on or after the January 1 following the Plan Year in which such Participant attains age 70^{1/2}. Any Participant, other than a 5% owner as defined in Code Section 416(i), who attains age 70^{1/2} on or after January 1, 2002, shall

commence receiving retirement benefits no later than the January 1 of the calendar year following the calendar year in which he attains age 70 ¹ / 2 or the calendar year in which he retires, whichever is later. Participants who are 5% owners must continue to commence receiving benefits on the January 1 following the Plan Year in which they attained age 70 ¹ / 2 .

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

Upon such Participant's actual Deferred Retirement Date, he shall then be eligible to make the election as described in Section 5.02.2.

5.07 SUSPENSION OF BENEFIT DISTRIBUTIONS

(a) *Conditions for Suspension*

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

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

(b) *Redetermination of Benefits*

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

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

(c) *Resumption of Benefits*

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

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

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

(d) *Notice of Suspension*

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

5.08 RETIREMENT PRIOR TO JANUARY 1, 1985

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

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

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

5.10 DISABILITY RETIREMENT BENEFITS

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

- (b) A Participant who on December 31, 1991 participated in the Pension Plan for Salaried Employees of Spence Engineering Company, Inc. and who met the requirements for a monthly disability benefit thereunder shall continue to receive the disability benefit under this Plan.

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

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

5.11 MINIMUM DISTRIBUTION REQUIREMENTS

(a) General Rules

- (i) *Effective Date.* The provisions of this Section 5.11 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.
- (ii) *Precedence.* The requirements of this article will take precedence over any inconsistent provisions of the Plan.
- (iii) *Requirements of Treasury Regulations Incorporated.* All distributions required under this Section 5.11 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code.
- (iv) *TEFRA Section 242(b)(2) Elections.* Notwithstanding the other provisions of this Section 5.11, other than paragraph (a) (iii) above, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242 (b)(2) of the Tax Equity and Fiscal Responsibility Act ("TEFRA") and the provisions of the Plan that relate to Section 242 (b)(2) of TEFRA.

(b) Time and Manner of Distribution

- (i) *Required Beginning Date.* The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.
- (ii) *Death of Participant Before Distributions Begin.* If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:
 - (A) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age $70\frac{1}{2}$, if later.
 - (B) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.
 - (C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by

- (D) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse begin, this Subsection 5.11(b)(ii), other than Subsection 5.11(b)(ii)(A), will apply as if the surviving Spouse were the Participant.

For purposes of this Subsection 5.11(b)(ii) and Subsection 5.11(e), distributions are considered to begin on the Participant's Required Beginning Date (or, if Subsection 5.11(b)(ii)(D) applies, the date distributions are required to begin to the surviving Spouse under Subsection 5.11(b)(ii)(A). If annuity payments irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Subsection 5.11(b)(ii)(A), the date distributions are considered to begin is the date distributions actually commence.

- (iii) *Form of Distribution.* Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections (c), (d) and (e) of this Section 5.10. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations. Any part of the Participant's interest which is in the form of an individual account described in Section 414(k) of the Code will be distributed in a manner satisfying the requirements of section 401(a)(9) of the Code and the Treasury regulations that apply to individual accounts.

(c) **Determination of Amount to be Distributed Each Year**

- (i) General Annuity Requirements. If the Participant's interest is paid in the form of annuity distributions under the plan, payments under the annuity will satisfy the following requirements:
- (A) the annuity distributions will be paid in periodic payments made at intervals not longer than one year;
 - (B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Subsection (d) or (e);
 - (C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted;
 - (D) payments will either be nonincreasing or increase only as follows:
 - (1) by an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics;
 - (2) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit upon death, but only if the Beneficiary whose life was being used to determine the distribution period described in Subsection (d) dies or is no longer the Participant's Beneficiary pursuant to a Qualified Domestic Relations Order within the meaning of section 414(p);
 - (3) to provide cash refunds of employee contributions upon the Participant's death; or
 - (4) to pay increased benefits that result from a Plan amendment.

- (ii) *Amount Required to be Distributed by Required Beginning Date.* The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Subsection 5.11(b)(ii)(A) or (B) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, e.g., bi-monthly, monthly, semi-annually, or annually. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.
- (iii) *Additional Accruals After First Distribution Calendar Year.* Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues.
- (d) **Requirements For Annuity Distributions That Commence During Participant's Lifetime**
 - (i) *Joint Life Annuities Where the Beneficiary Is Not the Participant's Spouse.* If the Participant's interest is being distributed in the form of a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the Participant using the table set forth in Q&A-2 of Section 1.401(a)(9)-6T of the Treasury regulations. If the form of distribution combines a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary and a period certain annuity, the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.
 - (ii) *Period Certain Annuities.* Unless the Participant's Spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the Benefit Commencement Date. If the Benefit Commencement Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Benefit Commencement Date. If the Participant's Spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Subsection (d)(ii), or the joint life and last survivor expectancy of the Participant and the Participant's Spouse as determined under the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the calendar year that contains the Benefit Commencement Date.
- (e) **Requirements For Minimum Distributions Where Participant Dies Before Date Distributions Begin**
 - (i) *Participant Survived by Designated Beneficiary.* If the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described

in Subsection (b)(ii)(A) or (B), over the life of the Designated Beneficiary or over a period certain not exceeding:

- (A) unless the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death; or
- (B) if the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year that contains the Benefit Commencement Date.

- (ii) *No Designated Beneficiary.* If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death
- (iii) *Death of Surviving Spouse Before Distributions to Surviving Spouse Begin.* If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Subsection (e) will apply as if the surviving Spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Subsection (b)(ii)(A).

(f) **Definitions**

- (i) *Designated Beneficiary.* The individual who is designated as the Beneficiary under Section 8.07 of the Plan and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.
- (ii) *Distribution Calendar Year.* A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Subsection (b)(ii).
- (iii) *Life Expectancy.* Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.
- (iv) *Required Beginning Date.* The date described in Section 5.06(b) of the Plan.

5.12 RETROACTIVE ANNUITY STARTING DATE

Effective as of January 1, 2004, in the event a written notice of a Participant's optional forms of payment (the "QJSA notice") is required and provided after the Participant's annuity starting date as defined in Q&A-10(b) of Section 1.401(a)-20 of the Treasury Regulations, the Participant's annuity starting date shall be deemed a "retroactive annuity starting date". In such event, the following provisions shall apply:

- (a) The date the first payment is actually made to the Participant (the "current annuity starting date") shall occur no later than 90 days after the date the QJSA notice is provided to the Participant (unless any delay beyond the 90 days is attributable to administrative delay in the payment of benefits).

- (b) The QJSA notice shall include the Participant's right to elect either a retroactive annuity starting date or a current annuity starting date.
- (c) The information included in the QJSA notice shall include information based on both the Participant's retroactive annuity starting date and current annuity starting date.
- (d) The Participant shall have the opportunity to elect in writing either (a) a benefit determined based on the retroactive annuity starting date or (b) a benefit determined based on the current annuity starting date.
- (e) In the event that (a) a Participant elects to receive his benefit determined as of a retroactive annuity starting date and (b) under the form of payment elected by such Participant the benefit payable to the Participant's spouse upon the Participant's death would be less than the benefit payable to such spouse if the Participant had elected to receive a 50% joint and survivor annuity with his spouse as beneficiary determined and payable as of the current annuity starting date, then the Participant's spouse must consent in writing to the Participant's election of such retroactive annuity starting date.
- (f) Except in the case where payment of the Participant's benefit (other than a form of payment that is subject to Section 417(e) of the Internal Revenue Code) commences no more than 12 months after the retroactive annuity starting date, the Participant's benefit determined based on the retroactive annuity starting date (including any interest adjustments) shall satisfy the requirements of Section 415 of the Internal Revenue Code if the current annuity starting date were to be substituted for the retroactive annuity starting date for all purposes of determining the limits under Section 415 of the Internal Revenue Code, including for purposes of determining the applicable interest rate and the applicable mortality table used to adjust such limits.
- (g) If the Participant's benefit is payable in a form of payment which would have been subject to Section 417(e) of the Internal Revenue Code if payment had commenced as of the retroactive annuity starting date, then the amount of payment as of the current annuity starting date shall be no less than the amount of payment produced by applying the applicable interest rate and the applicable mortality table (defined in Section 417(e)(3) of the Internal Revenue Code), determined as of such date to the annuity form that was used to determine the amount of payment as of the Participant's retroactive annuity starting date.
- (h) In the event that a Participant elects (with spousal consent, if applicable) to receive his benefit determined as of a retroactive annuity starting date, the Participant shall receive a make-up payment to reflect any missed payment or payments for the period from the retroactive annuity starting date to the date of the actual make-up payment, with an appropriate adjustment for interest from the date the missed payment or payments would have been made (including, if applicable, a payment of the single-sum value of the Participant's retirement income) to the date of the actual make-up payment. If the Participant's benefit is paid in a form other than a single-sum payment, the benefit payments, other than any required make-up payment, shall be in an amount that is equal to the amount which would have been paid to the Participant had payments actually commenced on his retroactive annuity starting date.
- (i) For purposes of the foregoing, references to a Participant's spouse shall include an alternate payee who, under the terms of a qualified domestic relations order, is required to be treated as a surviving spouse in the event of the Participant's death.
- (j) Notwithstanding the foregoing, a benefit shall not be determined based on a retroactive annuity starting date to the extent not permitted under applicable law (including regulations and other administrative guidance under the Internal Revenue Code).
- (k) The provisions of this Section 5.12 shall also apply to Part A and Part B of this Plan.

ARTICLE 6—TERMINATION OF SERVICE

6.01 REQUIREMENTS FOR VESTED BENEFITS

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

6.02 VESTED BENEFITS

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

Years of Service	Vesting Percentage
Less than 5 years	0%
5 years or more	100%

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

6.02.1 COMPUTATION OF A VESTED BENEFIT

- (a) The amount of a deferred vested benefit payable to a Terminated Participant under Section 6.02(a) shall be equal to his accrued benefit as determined under Section 5.032. Notwithstanding the foregoing, the amount of deferred vested benefit payable to a Terminated Participant who was an Employee on January 1, 1979 shall in no event be less than his accrued benefit determined in accordance with the provisions of Section 5.031.
- (b) The amount of a deferred vested benefit payable to a Terminated Participant under Section 6.02(b) shall not be less than the Actuarial Equivalent of the balance in his Accumulated Contribution Account, if any.

6.02.2 EARLY COMMENCEMENT OF A VESTED BENEFIT

- (a) A Terminated Participant entitled to a Vested Benefit under Section 6.02 may elect to have such benefit commence at any time after he is eligible to elect an Early Retirement Date pursuant to Section 4.02. In such case and subject to the provisions of paragraph (b) below, his benefit shall be computed as in Section 6.021, but shall be reduced by 5/9 of 1% for each of the first sixty (60) months by which his benefit commencement date precedes his Normal Retirement Date, and by 5/18 of 1% for each month thereafter, if any, by which his benefit commencement date precedes his Normal Retirement Date.
- (b) The Vested Benefit of a Participant, who on September 30, 1993 was participating in the Henry Pratt Plan and who elects early commencement as described in paragraph (a) above, shall not be less than the benefit he could have received if he elected early commencement of his benefit under the vested retirement provisions of the Henry Pratt Plan on September 30, 1993.

ARTICLE 7—DEATH OF PARTICIPANT

7.01 DEATH PRIOR TO RETIREMENT

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

7.02 SURVIVING SPOUSE BENEFIT

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

- (a) He has been legally married to such spouse throughout the twelve-month period ending on the date of his death;
- (b) He has met the requirements for a Vested Benefit under Section 6.02;
- (c) He has not attained Normal Retirement Age; and
- (d) He has not commenced receiving benefits under the Plan.

7.03 AMOUNT OF SURVIVING SPOUSE BENEFIT

If a Participant or Terminated Participant dies after fulfilling all the requirements of Section 7.02, his spouse shall be entitled to a lifetime benefit under the Plan. If the surviving spouse of the Participant or Terminated Participant consents, such benefit shall commence on the first day of the month following the later of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02. If such surviving spouse does not consent to receive benefits as described above, benefits shall commence on the first day of any month thereafter, as elected by the surviving spouse, but not later than the date the Participant or Terminated Participant would have attained age 65.

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

- (a) If the Participant or Terminated Participant dies after meeting the requirements for Early Retirement as provided under Section 4.02, the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the Participant or Terminated Participant had retired on the date preceding his date of death and he had been entitled to a Spouse Joint and Survivor Annuity;
- (b) If the Participant or Terminated Participant dies before meeting the requirements for Early Retirement as provided under Section 4.02, but after meeting the requirements for a Vested Benefit under Section 6.02(a), the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the Participant or Terminated Participant had:
 - (i) terminated service on the date of his death;
 - (ii) survived to the earliest retirement age under Section 4.02;
 - (iii) retired at that time and was entitled to receive a Spouse Joint and Survivor Annuity; and
 - (iv) died on the day following attainment of the earliest retirement age; or

- (c) If the Participant's or Terminated Participant's surviving spouse elects a benefit commencement date other than the first day of the month following the date of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02, the Surviving Spouse Benefit under (a) or (b) above, whichever is applicable, shall be actuarially adjusted to reflect the actual date of benefit commencement.
- (d) ***For Participants Who Participated in the Spence Plan***

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

7.04 DEATH AFTER COMMENCEMENT OF BENEFITS OR NORMAL RETIREMENT AGE

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

- (a) If a Participant is receiving a Spouse Joint and Survivor Annuity as described in Section 5.02, any benefits becoming due will be paid in accordance with the terms of such Spouse Joint and Survivor Annuity;
- (b) If a Participant has elected an optional benefit under Article 8, any benefits becoming due will be paid in accordance with the terms of such option;
- (c) If a Participant dies after attaining his Normal Retirement Age but before his Deferred Retirement Date, the Spouse Joint and Survivor Annuity as described in Section 5.02 shall be deemed to be in effect on behalf of such Participant, provided he has not made an election under Section 5.02.2 to receive his benefits under another form of payment.

ARTICLE 8—OPTIONAL FORMS OF BENEFIT

8.01 TIME FOR ELECTION

Subject to the restrictions set forth in Section 8.08, in lieu of receiving the life annuity referred to in Section 5.01 or the Spouse Joint and Survivor Annuity referred to in Section 5.02, a Participant may elect, by written application filed with the Committee, to have his retirement benefit paid under one of the forms of benefit set forth in this Article 8, provided that such election is made prior to actual retirement under the Plan and in accordance with the procedures set forth in Section 5.02.4 (if such Participant is married) and in this Article 8. Neither Section 5.01 nor Section 5.02 shall apply if an effective election is made under this Article; provided, however, that a married Participant may, at any time during the election period established by the Committee under Section 5.02.2, rescind his election of an option under this Article 8 and receive his retirement benefit in the form of an annuity for life under Section 5.01 or a Spouse Joint and Survivor Annuity under Section 5.02 if he has met the requirements therefor.

8.02 CONTINGENT ANNUITANT OPTION

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

8.03 TEN YEAR CERTAIN LIFE ANNUITY OPTION

A Participant may elect an option in accordance with Section 5.02, under which option he will receive an actuarially reduced benefit during his lifetime after retirement with a provision that if he dies after his Normal Retirement Age or after commencement of his benefit payments but prior to receiving one hundred twenty (120) monthly retirement payments, the balance of such one hundred twenty (120) monthly retirement payments shall be paid to the Participant's Beneficiary.

8.04 FIVE YEAR CERTAIN LIFE ANNUITY OPTION

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

8.05 REFUND OF ACCUMULATED CONTRIBUTION ACCOUNT

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

(a) ***Refund of Accumulated Contribution Account on and after Retirement or Other Termination of Employment.***

A Participant may elect to receive on or after the date of his retirement or other termination of employment and before his benefit commencement date, a refund of the balance, if any, in his Accumulated Contribution Account.

If a Participant elects a refund of his Accumulated Contribution Account under this Section 8.05(a), his Normal Retirement Benefit provided in Section 5.03 shall be reduced by the Actuarial Equivalent of his Accumulated Contribution Account and his Accumulated Contribution Account shall be reduced to zero.

Notwithstanding the foregoing provisions of this Section 8.05(a), if the Actuarial Equivalent value of a Participant's entire nonforfeitable benefit exceeds \$3,500 (\$5,000 commencing October 1, 2001), the Participant's spouse, if any, must consent to the Participant's election to withdraw the balance in his Accumulated Contribution Account. For this purpose, a spousal consent is valid only if made no earlier than 90 days before the date of withdrawal, is effective when received by the Committee and must:

- (i) Be in writing on a form provided by the Committee;
- (ii) Acknowledge the effect of the consent; and
- (iii) Be witnessed by a notary public or Plan representative.

Any such consent will be valid only with respect of the spouse who signs the consent. Spousal consent is not required, however, if the Participant establishes to the satisfaction of the Committee that there is no Spouse, the Spouse cannot be located, or the Participant can show by court order that he is legally separated or has been abandoned by the spouse within the meaning of local law, or if otherwise permitted under applicable regulations.

If the spouse is legally incompetent to give consent, the spouse's legal guardian, who may be the Participant, may consent to the withdrawal.

(b) ***Refund of Accumulated Contributions Upon Cessation of Benefit Payments or Upon Death***

Notwithstanding any contrary provisions of the Plan, upon cessation of all benefit payments under the provisions of the Plan in respect of a Participant who has not received a refund of the balance of his Accumulated Contribution Account, if any, including payments to a spouse, Contingent Annuitant or Beneficiary, or upon the death of a Participant in respect of whom no benefits are payable, the excess, if any, of the balance of the Participant's Accumulated Contribution Account over the aggregate benefit payments made hereunder in respect of such Participant shall be paid to his Beneficiary in a single lump sum. A suspension of benefits under Section 5.07 shall not be deemed to be a cessation under this Section.

8.06 WHEN OPTION EFFECTIVE

If a Participant who elects an option under this Article 8 dies prior to Normal Retirement Age or prior to the date his benefits commence, if earlier, the election shall be void and no benefit will be paid under the option. If the Participant's Contingent Annuitant, or Beneficiary if applicable, dies prior to the commencement of retirement benefits to the Participant and prior to the Participant's Normal Retirement Age, the Participant may either (a) designate another Contingent Annuitant, or Beneficiary, if applicable, prior to his Normal Retirement Age, (b) receive the form of benefit at retirement which would have been payable to him had the option not been elected, or (c) elect another optional form of benefit under Article 8. Notwithstanding the first sentence of this Section 8.06, if the Participant has elected a Deferred Retirement Date, and if the Participant dies after his Normal Retirement Date but before his Deferred Retirement Date, the Contingent Annuitant or Beneficiary, if applicable, shall receive the reduced amount of retirement benefit payable under the option. If the Participant has elected a Deferred Retirement Date, and if either the Contingent Annuitant or Beneficiary, if applicable, dies after the Participant's Normal Retirement Date but before his Deferred Retirement Date, the election shall be void and the

Participant will receive the benefit which would have been payable to him had the option not been elected, unless another option is elected.

8.07 BENEFICIARY

A Participant who elects an option under Section 8.03 or 8.04 shall designate, on a form provided by the Committee, a Beneficiary to receive any death benefit which may become payable under the designated option. The Participant may change his designation of Beneficiary from time to time by written notice filed with the Committee. If no designated Beneficiary survives to receive all benefits which may become due under the Plan, any such benefits becoming due shall be paid to any one or more of the following classes of successive Beneficiaries surviving the Participant: the Participant's (a) spouse, (b) issue, (c) parents, (d) brothers and sisters, or (e) executors and administrators.

8.08 LIMITATION OF ELECTION OF OPTION

No option shall be effective under this Article if the anticipated effect would be to extend the period of payments beyond the joint life expectancy of the Participant and his Contingent Annuitant or Beneficiary; or would violate the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations, or any provision of future law that amends, supplements, or supersedes such provision.

8.09 SPOUSAL CONSENT REQUIREMENT

Notwithstanding anything herein contained to the contrary, the election by a married Participant of an optional form of benefit shall not take effect unless the requirements set forth in Section 5.02.4 have been satisfied.

ARTICLE 9—CHANGE IN STATUS AND TRANSFER

9.01 CHANGE IN STATUS FROM ELIGIBLE EMPLOYEE TO NON-ELIGIBLE EMPLOYEE

If a Participant is included in this Plan for a part of his period of employment with the Employer or an Affiliated Employer and then loses his status as an Eligible Employee, as defined in this Plan, he will not accrue any further benefits under this Plan; however, all Service with the Employer or an Affiliated Employer will be taken into account in determining his eligibility rights to receive any benefits previously accrued under this Plan.

In the event an Employee loses his status as an Eligible Employee, his benefit shall be determined using his Final Average Compensation, Covered Compensation, and years of Benefit Service on the date he ceases to be an Eligible Employee. If the Employee's status again changes and he becomes an Eligible Employee and resumes participation under the Plan, his years of Benefit Service shall be aggregated and his benefit shall be determined using his Final Average compensation and Covered Compensation on the latest date he ceases to be an Eligible Employee.

9.02 CHANGE IN STATUS FROM NON-ELIGIBLE EMPLOYEE TO ELIGIBLE EMPLOYEE

If a Participant is included in this Plan after a period of Service with the Employer when he was not an Eligible Employee, as defined in this Plan, all his Service with the Employer or an Affiliated Employer will be counted only for purposes of determining his eligibility to participate in the Plan and his rights to receive benefits under this Plan.

9.02.1 NON-DUPLICATION OF BENEFITS

If benefits are payable on account of the same period of employment with the Employer or an Affiliated Employer, under this Plan and another qualified defined benefit plan toward which the Employer contributes (or has contributed), the benefits payable under this Plan on account of such period shall be reduced by the Actuarial Equivalent of any benefit payable to him under such other plan calculated in the same form and manner as is the benefit payable under this Plan on account of the same period of Service. However, if such other Plan provides for a similar reduction of benefits, then this Section shall be disregarded with respect to an Eligible Employee whose most recent period of participation in this Plan is earlier than his most recent period of participation in such other plan.

9.03 TRANSFER IN EMPLOYMENT

For purposes of determining vested benefits and eligibility, a direct transfer in employment between the Employer and a wholly owned subsidiary of the Employer, whether or not it adopts the Plan, shall not be deemed to effect any break in Service as to the Eligible Employee or Participant so transferring, as long as he retains his status as an Eligible Employee with such subsidiary. His Benefit Service with such subsidiary prior to the date of its adoption of the Plan shall be counted for purposes of the Plan to the extent specified in the vote of the board of directors of such subsidiary adopting the Plan. The Eligible Employee or Participant shall not lose his right to any Benefit Service he had accrued with the Employer prior to the date of his transfer in employment to the subsidiary, provided that there shall be no duplication in benefits based on such Benefit Service.

9.03.1 EMPLOYMENT WITH AN AFFILIATED EMPLOYER

For purposes of determining a Participant's eligibility to participate in the Plan and his right to a Vested Benefit under Section 6.02, any employment with an Affiliated Employer shall be treated as Service with the Employer; such Service to be determined by the Committee in accordance with

the Service provisions of Article 2 applied in a uniform, nondiscriminatory manner to all Participants and to be based on the employment records of the Affiliated Employer. In no event shall a person who has completed such Service enter the Plan prior to his employment with the Employer or accrue any benefits under the Plan in respect of such Service, except as provided in Section 9.03.

9.04 EMPLOYMENT WITH WATTS FLUIDAIR CO.

If a Participant was included in one of the Prior Plans and ceased to be an Employee, as defined in such Prior Plan, because prior to July 1, 1981 he entered employment with and became included in a pension plan of Watts Fluidair Co. (formerly known as Watts Fluid Power Co.), he will not accrue any further benefits under this Plan; however, all service earned with Watts Fluidair Co. will be taken into account in determining his eligibility rights to receive any benefits previously accrued under the Prior Plan. If a Participant who transferred from employment with Watts Regulator Co. to Watts Fluidair Co. prior to July 1, 1981 is included in this Plan after a period of employment with Watts Fluidair Co., all his service with Watts Fluidair Co. will be counted for purposes of determining his eligibility to participate in this Plan and his eligibility rights to receive benefits under this Plan, and will be counted for purposes of determining his Benefit Service hereunder. His accrued benefit as determined under Section 5.03.2 shall be reduced by the Actuarial Equivalent of the benefit payable to him under any Watts Fluidair Co. plan calculated in the same form and manner as the benefit payable under this Plan.

9.05 EMPLOYMENT WITH SPENCE ENGINEERING COMPANY, INC.

If an Employee transfers from Spence Engineering Company Inc. to Watts Regulator Co. prior to December 31, 1987, his total service with Spence Engineering Company, Inc. will be counted for purposes of determining his eligibility to participate in this Plan and his eligibility to receive benefits under this Plan, and will be counted for purposes of determining his Benefit Service hereunder.

ARTICLE 10—ADMINISTRATION

10.01 ALLOCATION OF RESPONSIBILITY AMONG FIDUCIARIES FOR PLAN AND TRUST ADMINISTRATION

The Fiduciaries shall have only those powers, duties, responsibilities and obligations as are specifically given to them under this Plan or the Trust. Any power, duty, responsibility or obligation relating to the control, management, or administration of the Plan or Trust Fund which is not specifically allocated to any Fiduciary, or with respect to which the allocation is in doubt, shall be deemed allocated to the Employer. In general, the Employer shall have the sole responsibility for making the contributions, as specified in Article 11 and subject to the provisions of Article 11, necessary to provide benefits under the Plan. The Sponsoring Employer by action of its Board shall have the sole authority to appoint and remove the Trustee and the members of the Committee and to amend or terminate, in whole or in part, this Plan and the Trust. The Committee shall have the sole responsibility for the administration of this Plan, as specifically described in this Plan and the Trust. The Trustee shall have the sole responsibility for the administration of the Trust and the management of the Trust assets, except as otherwise specifically provided in this Plan and the Trust.

The Sponsoring Employer, by written instrument filed with the records of the Plan, may designate fiduciary capacities and/or Fiduciaries other than those named herein. A Fiduciary may serve in more than one fiduciary capacity in respect to the Plan. A Fiduciary shall have the authority to delegate responsibilities, as provided above, and may employ one or more parties to render advice with regard to any responsibility he has under the Plan.

10.02 INDEMNIFICATION

The Employer shall indemnify each member (and former member) of the Committee and any other employee, officer or director (and former employee, officer or director) of the Employer against any claims, loss, damage, expense and liability (other than amounts paid in settlement not approved by the Employer) reasonably incurred by him in connection with any action or failure to act to which he may be party by reason of his membership on the Committee or performance of an authorized duty or responsibility for or on behalf of the Employer pursuant to the Plan or Trust unless the same is determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Employer shall be made only to the extent (i) such expense or liability is not payable to or on behalf of such person under liability insurance coverage; and (ii) the Trust is precluded from assuming such expense or liability because of the operations of ERISA Section 410 or other applicable law. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

10.03 APPOINTMENT OF COMMITTEE

The Plan shall be administered by a Committee consisting of at least three (3) persons who shall be appointed by and serve at the pleasure of the Board. A person who is selected as a member of the Committee also may serve in one or more other fiduciary capacities with respect to the Plan and may be a Participant. The Board shall have the right to remove any member of the Committee at any time, and a member may resign at any time by written resignation to the Board. The Board may fill by appointment any vacancy in the membership of the Committee. All usual and reasonable expenses of the Committee incurred by them in the administration of the Plan and Trust, including but not limited to fees and expenses of professional advisors referred to above, shall be paid by the Trust Fund unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any

such expenses. Any members of the Committee who are full-time employees of the Employer shall not receive compensation with respect to their services as a member of the Committee.

10.04 RECORDS AND REPORTS

The Committee shall exercise such authority and responsibility as it deems appropriate in order to comply with the Code, ERISA, and governmental regulations issued thereunder relating to records of Participants, Service and Benefit Service, benefits, notifications to Participants, annual registration with the Internal Revenue Service, and annual reports to the Department of Labor. The Employer and the Committee shall each keep or cause to be kept such Employee and Participant data and other records, and shall each reasonably give notice to the other of such information, as shall be proper, necessary or desirable to effectuate the purpose of the Plan. Neither the Employer nor the Committee shall be required to duplicate any records kept by the other.

10.05 OTHER COMMITTEE POWERS AND DUTIES

The Committee shall have such duties and powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following:

- (a) To construe and interpret the Plan, including the supplying of any omissions in accordance with the intent of the Plan, decide all questions of eligibility, determine the amount, manner and time of payment of any benefits hereunder, and to authorize the payment of benefits;
- (b) To prescribe forms and procedures to be followed by the Participants, spouses, and Beneficiaries filing applications for benefits;
- (c) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan;
- (d) To receive from the Employer and from Participants such information as shall be necessary for the proper administration of the Plan;
- (e) To furnish the Employer, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate;
- (f) To receive, review and keep on file (as it may deem convenient or proper) reports of the financial condition, and of the receipts and disbursements, of the Trust Fund from the Trustee;
- (g) To appoint, employ or designate individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal and actuarial counsel;
- (h) To make such equitable and practical adjustments as may be necessary to correct mistakes of fact or other errors; and
- (i) To authorize amendments of the Plan by a Company officer, provided such amendments are of a non-substantive nature and do not significantly increase the cost of the Plan; and
- (j) To exercise such other powers and duties as the Board may delegate to it.

The Committee may retain auditors, accountants, physicians, actuaries, legal counsel and other professional advisors selected by it. The opinion of, or information and data contained in any certificate or report or other material prepared by any such auditor, physician, actuary, accountant, legal counsel, or other professional advisor, shall be full and complete authority and protection in respect of any action taken, suffered or omitted by the Committee or other Fiduciary in good faith and in accordance with such opinion or information and no member of the Committee or other Fiduciary shall be deemed imprudent by reason of any such action.

10.06 RULES AND DECISIONS

The Committee may adopt such rules as it deems necessary, desirable or appropriate for the proper and efficient administration of the Plan and as are consistent with the provisions of the Plan. Rules and decisions of the Committee shall not discriminate in favor of officers, directors, or Highly Compensated Employees of the Employer. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished by a Participant, spouse, Contingent Annuitant or Beneficiary, the Employer, the legal counsel of the Employer, an Actuary, consultant, or the Trustee. The Committee shall have and shall exercise complete discretionary authority to construe, interpret and apply all of the terms of the Plan, including all matters relating to eligibility for benefits, amount, time or form of benefits, and any disputed or allegedly doubtful Plan terms. Any such construction, administration, interpretation or application shall be final, binding and conclusive upon all persons including, but not by way of limitation, Employees, Participants, spouses, Contingent Annuitants, Beneficiaries, and their heirs, and personal representatives, and any other person claiming an interest under the Plan and shall not be deemed imprudent. In exercising such discretion, the Committee shall give controlling weight to the intent of the Plan.

10.07 COMMITTEE PROCEDURES

The Committee may act at a meeting or in writing without a meeting. All decisions of the Committee shall be made by the vote of the majority including actions in writing taken without a meeting. The Committee may adopt such operating procedures and regulations as it deems desirable for the conduct of its affairs and may authorize a member, or each member, of the Committee to act on its behalf in certain administrative matters deemed by them to be routine in nature, including the execution of documents. No Committee member who is a Participant shall have any vote in any decision of the Committee made uniquely with respect to such Committee member or his benefits hereunder.

10.08 AUTHORIZATION OF BENEFIT PAYMENTS

The Committee shall issue directions to the Trustee concerning all benefits which are to be paid from the Trust Fund pursuant to the provisions of the Plan, and certify that all such directions are in accordance with the Plan.

10.09 APPLICATION AND FORMS FOR PAYMENT

The Committee shall require a Participant to complete and file with the Committee an application for distribution of benefits and all other forms approved by the Committee for the purpose and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information furnished to it, including the Participants current mailing address. To the extent that the Committee shall prescribe forms for use by the Participants, former Participants, and their respective spouses, Contingent Annuitants or Beneficiaries in communicating with the Employer or the Committee, as the case may be, and shall establish periods during which communications may be received, they and the Employer shall respectively be protected in disregarding any notice or communication for which a form shall so have been prescribed and which shall not be made on such form and any notice or communication for the receipt of which a period shall so have been established and which shall not be received during such period, or in accepting any notice or communication which shall not be made on the proper form and/or received during the proper period. The Employer and the Committee shall respectively also be protected in acting upon any notice or other communication purporting to be signed by any person and reasonably believed to be genuine and accurate, and shall not be deemed imprudent by reason of so doing.

10.10 PROCEDURE FOR CLAIMING BENEFITS UNDER THE PLAN

- (a) Claims for benefits under the Plan made by a Participant or Beneficiary covered by the Plan must be submitted in writing to the Committee. Approved claims will be processed and instructions issued to the Trustee authorizing payments as claimed.

If a claim is denied in whole or in part, the Committee shall notify the claimant of its decision by written notice, in a manner calculated to be understood by the claimant. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary;
- (iv) an explanation of the Plan's claim review procedure; and
- (v) a statement of the claimant's right to bring a civil action in accordance with section 502(a) of ERISA if the claimant's claim is denied upon review.

Such notification shall be given within 90 days after the claim is received by the Committee. This period may be extended for another 90 days if the claimant is notified that the extension is necessary due to matters beyond the control of the Plan, before the end of the original 90-day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

- (b) Upon denial of a claim in whole or in part, a claimant or his duly authorized representative shall have the right to submit a written request to the Committee for a full and fair review of the denied claim, to submit written comments, documents, records, and other information relating to the claim, and to be provided, upon request and free of charge, access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits. A request for review of a claim must be submitted within 60 days of receipt by the claimant of written notice of the denial of the claim.

The Committee shall advise the claimant of the results of the review within 60 days after receipt of the written request for review. This period may be extended for another 60 days if the Committee determines that special circumstances require an extension of time for processing the request and if written notice of such extension and circumstances is given to such claimant within the initial 60 day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

In the event an appeal is denied, the claimant will be notified in writing. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a statement of the claimant's right to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (iv) a statement of the claimant's right to bring a civil action in accordance with Section 502(a) of ERISA.

The decision of the Committee by majority vote shall be final and binding upon any and all claimants, including but not limited to Participants and their Beneficiaries, and any other individuals making a claim through or under them.

10.11 APPEAL AND REVIEW PROCEDURE

If a claim has been denied by the reviewing Committee member, the claimant may appeal the denial within sixty (60) days after his receipt of written notice thereof by submitting in writing to the Committee a request for review of the denial of such claim. A claimant may also submit a written statement of issues and comments concerning his claim, and he may request an opportunity to review the Plan, the Trust and any other pertinent documents (which shall be made available to him by the Committee within thirty (30) days after its receipt of a copy of the request) at a convenient location during regular business hours.

If an appeal is made, the Committee shall render its final decision with the specific reasons therefor in writing and transmit it to the claimant by certified mail within 60 days of its receipt of the request for review (or within 120 days in the event a hearing is granted).

All interpretations, determinations, and decisions of the Committee or its designated representative with respect to any issue herein will be final, conclusive, and binding upon all interested parties.

10.12 EVIDENCE

Evidence required of anyone under the Plan may be given by certificate, affidavit, document or in such other form as the person to whom such evidence is given considers appropriate.

ARTICLE 11—FUNDING OF THE PLAN

11.01 MEDIUM OF FUNDING

The Plan will be funded through one or more Trust Funds established by the Employer.

11.02 CONTRIBUTIONS

The Employer shall make such contributions to the Trust Fund from time to time as may be necessary to maintain the Plan on a sound actuarial basis and meet the funding requirements of ERISA. In determining such contributions, the earnings of the Trust Fund and any amounts forfeited by Terminated Participants shall be considered as a part of the Trust Fund in establishing the cost of maintaining the Plan.

11.03 FUND TO BE FOR THE EXCLUSIVE BENEFIT OF PARTICIPANTS

The contributions made to the Trust Fund by the Employer under the Plan shall be for the exclusive benefit of Participants, Retired Participants, and Terminated Participants, and no part of the Trust Fund shall revert to the Employer, except such amounts as may remain after the satisfaction of all liabilities to Participants, Retired Participants, Terminated Participants, surviving spouses, Contingent Annuitants, and Beneficiaries upon termination of the Plan.

11.04 FORFEITURES

All amounts forfeited by Terminated Participants shall be used to reduce the Employer's cost of the Plan, and shall not be used to increase the benefits of other Participants under the Plan.

11.05 INTERESTS OF PARTICIPANTS IN TRUST FUND

No Participant shall have any right, title or interest in any part of the assets of any Trust Fund except as and to the extent expressly provided by the Plan.

11.06 PAYMENT OF EXPENSES

It is intended that the administrative and all other expenses of the Plan shall be paid by the Trust Fund, unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any such expenses.

ARTICLE 12—PAYMENT OF RETIREMENT BENEFITS

12.01 PAYMENT OF SMALL AMOUNTS

- (a) Effective for distributions determined on or after March 28, 2005, if the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse under the Plan does not exceed \$1,000 on the date of distribution, or does not exceed \$5,000 as of a distribution date on or after the Participant's Normal Retirement Date, such amount shall be automatically paid to the Participant or surviving spouse in a lump sum.

Distribution shall be made as soon as practicable after the Participant's termination of employment or death.

- (b) Effective for distributions determined on and after March 28, 2005, if the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse under the Plan exceeds \$1,000 but is not in excess of \$5,000 as of the date of distribution prior to the Participant's Normal Retirement Date, the Participant or surviving spouse may elect in writing, on a form provided by the Committee, to receive the distribution in a lump sum at any time prior to the Participant's Normal Retirement Date. If the Participant or surviving spouse does not make a timely election, the lump sum option under this Section 12.01(b) will be available at the Participant's or surviving spouse's election prior to the Participant's Normal Retirement Date only if the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse is not in excess of \$5,000 as of any subsequent distribution date. If the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse exceeds \$5,000, then the provisions of this Section 12.01(b) shall not apply.
- (c) Notwithstanding the provisions of Section 12.01(a) and Section 12.01(b), if the Actuarial Equivalent of the Participant's accrued benefit derived from Employer contributions is \$5,000 or less after distribution of the Participant's Accumulated Contribution Account, a Participant may elect to receive a distribution equal to the Actuarial Equivalent of his remaining Employer-provided accrued benefit provided the appropriate spousal consent as set forth in Section 5.02.4 is obtained.
- (d) Payment of such small amounts shall be in final satisfaction of any rights with respect to a Participant's benefits under the Plan. No distribution shall be made under this Section 12.01 after a Participant's benefit commencement date, unless the Participant and the Participant's spouse, or where the Participant has died, the surviving spouse consents in writing to such distribution.
- (e) For purposes of this Section, the accrued benefit payable to the Participant or the death benefit payable to a Participant's surviving spouse shall also include any amounts payable under Parts A and B of this Plan.

12.02 DEEMED DISTRIBUTION

If the Actuarial Equivalent of the vested portion of a Participant's accrued benefit is zero, the Participant shall be deemed to have received a single sum distribution of the vested portion of his accrued benefit on his date of termination of employment and the nonvested portion of his accrued benefit shall thereupon be forfeited. If such Participant resumes employment covered under the Plan before the date he incurs a Break in Service on or after January 1, 1985 which equals or exceeds the greater of five years or the number of years of Service which the Employee

completed prior to the Break in Service, the nonvested portion of the accrued benefit forfeited pursuant to this Section 12.02 shall be restored on the Participant's date of reemployment.

12.03 PAYMENTS FOR INCAPACITATED PERSONS

Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit, or installment thereof, hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his financial affairs, the Committee may direct the Trustee to make payments to the legal representative of such person. Any payment of a benefit or installment thereof in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

If any Beneficiary of any Participant or former Participant shall be a minor, the Trustee shall be fully protected in making any payment required to be made to such minor to any person who shall be a custodian or guardian for such minor.

12.04 SPENDTHRIFT

Except as provided in Section 12.05, no benefit payable at any time under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer, assignment, pledge, attachment or encumbrance of any kind. No benefit and no Trust Fund established in connection with the Plan shall in any manner be subject to the debts or liabilities of any person entitled to such benefit. Effective August 5, 1997, the Plan shall recognize judgements or settlements described in Sections 401(a)(13)(C) and (D).

12.05 PAYMENT UNDER QUALIFIED DOMESTIC RELATIONS ORDERS

Notwithstanding any provision of the Plan to the contrary, if there is entered any qualified domestic relations order (within the meaning of Section 414(p) of the Code and ERISA Section 206(d)(3)(B), as added by the Retirement Equity Act of 1984) that affects the payment of benefits hereunder, such benefits shall be paid in accordance with the applicable requirements of such order.

12.06 LATEST COMMENCEMENT OF BENEFITS

In no case, unless the Participant otherwise elects in accordance with Section 401(a)(14) of the Code and the Treasury Regulations promulgated thereunder, will the payment of benefits to any Participant commence later than the 60th day after the latest of the following: (i) the close of the Plan Year of the Participant's Normal Retirement Date (as defined in Section 4.01); (ii) the close of the Plan Year in which occurs the tenth anniversary of the year in which the Participant commenced participation in the Plan; or (iii) the close of the Plan Year in which the Participant terminates his service with the Employer and all Affiliated Employers, subject to the requirements of Code Section 401(a)(9).

12.07 COMMENCEMENT OF BENEFITS PRIOR TO NORMAL RETIREMENT AGE

Notwithstanding anything herein to the contrary, except as provided in Section 12.01, no benefit shall commence to the Participant or the Participant's spouse prior to the date the Participant attains or would have attained his Normal Retirement Age without the consent of the Participant and the Participant's spouse, if required by applicable law. Such consent must be obtained not more than 90 days prior to the benefit commencement date.

12.08 DISTRIBUTION OF BENEFITS BEGINNING BEFORE DEATH AND AFTER DEATH

- (a) ***Distribution Beginning Before Death.*** If distribution to the Participant has begun and the Participant dies before his entire Vested Benefit has been distributed, the remaining portion of such Vested Benefit shall be distributed to his Beneficiary or Contingent Annuitant, as least as rapidly as under the method of payment in effect at the Participant's date of death.
- (b) ***Distribution Beginning After Death .*** If the Participant dies before commencement of his Vested Benefit, distribution of the Participant's entire Vested Benefit shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death, except that:
 - (i) if the Participant's designated Beneficiary is an individual other than the Participant's spouse, the Participant's interest may be distributed over the life expectancy of his Beneficiary, beginning on or before December 31 of the calendar year immediately following the calendar year in which the Participant died; and
 - (ii) if the Participant's designated Beneficiary is his spouse, the Participant's interest may be distributed over the life expectancy of his spouse, beginning on or before the later of:
 - (A) December 31 of the calendar year next following the calendar year in which the Participant died; or
 - (B) December 31 of the calendar year in which the Participant would have attained age 70 ¹ / 2 .

12.09 DIRECT ROLLOVER DISTRIBUTIONS

Notwithstanding any provision of the Plan to the contrary, if any distribution to a Distributee (i) is made on or after January 1, 1993, (ii) totals \$200 or more, and (iii) constitutes an Eligible Rollover Distribution, the Distributee may elect on a form provided by the Committee to have all or part of such Eligible Rollover Distribution paid in a direct rollover to an Eligible Retirement Plan selected by the Distributee. For this purpose, a Distributee, an Eligible Rollover Distribution, and an Eligible Retirement Plan shall be defined as follows:

- (a) Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.
- (b) Eligible Rollover Distribution means any distribution of all or any portion of the balance to the credit of a Distributee, except that an Eligible Rollover Distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; effective January 1, 1999, any hardship distribution as defined by Code Section 401(k) (2)(B)(i)(IV); and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

Effective for distributions after December 31, 2001,

- (1) an Eligible Rollover Distribution does not include any hardship distribution, and
- (2) a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includable

in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

- (c) Eligible Retirement Plan means a plan described below:
- (i) an individual retirement account described in Section 408(a) of the Code;
 - (ii) an individual retirement annuity (other than an endowment contract) described in Section 408(b) of the Code;
 - (iii) with respect to Participants and Distributees who are alternate payees only, a qualified defined contribution plan and exempt trust described in Sections 401(a) and 501(a) of the Code respectively, the terms of which permit the acceptance of rollover contributions; or
 - (iv) with respect to Participants and Distributees who are alternate payees only, an annuity plan described in Section 403(a) of the Code.

If an election is made to have only a part of an eligible rollover distribution paid in a direct rollover, the amount of the direct rollover must total \$500 or more.

Direct rollovers shall be accomplished in accordance with procedures established by the Committee.

Effective for distributions after December 31, 2001, an Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by an eligible employer described in Section 457(e)(1)(A) of the Code.

The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p).

ARTICLE 13—AMENDMENTS TO OR TERMINATION OF THE PLAN

13.01 RIGHTS OF THE EMPLOYER TO AMEND OR TERMINATE

- (a) While it is the intention of the Employer to continue the Plan indefinitely, the Employer reserves the right to modify, amend or terminate the Plan in whole or in part at any time by an instrument in writing pursuant to authority of a vote of the Board of Directors; provided, however, that the Plan shall not be amended in such manner as would cause or permit any part of the Trust to be diverted for purposes other than for the exclusive benefit of Participants, Retired Participants, and Terminated Participants; decrease a Participant's accrued benefit or eliminate an optional form of payment with respect to benefits accrued as of the later of the (a) the date such amendment is adopted, or (b) the date the amendment becomes effective; or to revert to or become the property of the Employer, prior to the satisfaction of all liabilities under the Plan with respect to Participants, Retired Participants, Terminated Participants, surviving spouses, Contingent Annuitants, and Beneficiaries.
- (b) If any Plan amendment changes the vesting schedule set forth in Section 6.02, each Participant who has completed at least three (3) years of Service on the effective date of the change in the vesting schedule shall have his vesting percentage computed in accordance with the vesting schedule which produces the highest vested benefit.

13.02 TERMINATION OF THE PLAN

- (a) Upon termination of the Plan due to any reason, or partial termination in accordance with the regulations of the Treasury Department, the rights of all non-vested Participants affected by such termination to benefits accrued prior to the date of such termination shall be nonforfeitable. The assets of the Plan shall thereupon be allocated in accordance with the provisions of Sections 13.03 and 13.04. No Participant or any other person shall have the right to seek payment of benefits directly from the Employer and all persons shall look solely to the Trust Fund for payment of benefits. Such payments shall be made only to the extent that the funds held in the Trust are sufficient therefor, except as may be otherwise guaranteed by the Pension Benefit Guaranty Corporation.
- (b) Upon termination of the Plan, benefits of missing Participants shall be treated in accordance with Section 4050 of ERISA.

13.03 LIMITATIONS ON BENEFITS UPON TERMINATION

The allocation of the amounts in Section 13.04 shall be based on the actuarial value of the benefit payable under the Plan at Normal Retirement Age as a life annuity, without death benefit, not in excess of the lesser of:

- (a) 100% of the Participant's monthly compensation averaged over the five consecutive years in which his compensation was the highest; or
- (b) such amount as determined according to the regulations of the Pension Benefit Guaranty Corporation. Such amount shall be subject to adjustment each year to reflect changes in the Social Security contribution and benefit base, any such adjustments shall be in accordance with regulations issued by the Pension Benefit Guaranty Corporation.

13.04 ALLOCATION OF ASSETS

After providing for the expenses incurred in terminating the Plan, the assets shall be used and applied for the benefit of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries), Participants, and Terminated Participants who at the date of retirement or

termination of employment may have been entitled to retirement benefits, to be allocated in the following order:

- (a) **First:** the accrued benefit equal to 10% of the Participant's Accumulated Contributions Account, plus 5% interest thereon from the date of termination, accrued to age 65.
- (b) **Second:** If any assets remain after allocation for the purposes of paragraph (a), assets shall be allocated to provide pensions for life, on the basis of the Plan provisions in effect at the beginning of the five-year period ending on the date of Plan termination, to Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) who have been receiving benefits for three years prior to the date of termination and Participants and Terminated Participants who have met the requirements for normal or early retirement benefit at least three years prior to the date of termination.
- (c) **Third:** If any assets remain after allocation for the purposes of paragraphs (a) and (b), they shall be allocated to provide a benefit for life, on the basis of the Plan provisions in effect five years prior to the date of Plan termination, to all other Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) and all other Participants and Terminated Participants who are not included in paragraph (a) and who have met the requirements for Normal or Early Retirement or for a Vested Benefit under Article 6 at the date of termination.
- (d) **Fourth:** If any assets remain after allocation for the purposes of paragraphs (a), (b), and (c), they shall be allocated to provide the benefit, if any, in excess of the benefit provided by the allocations under paragraphs (a), (b), and (c) necessary to bring the benefits of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries) and all Participants and Terminated Participants who have met the requirements for Normal or Early Retirement or a Vested Benefit under Article 6 at the date of Plan termination up to the full amount of the accrued retirement benefit provided under the Plan as of the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.
- (e) **Fifth:** If any assets remain after allocation for the purposes of paragraphs (a), (b), (c), and (d), they shall be allocated to provide benefits to all other Participants of the Plan on the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.
- (f) **Sixth:** If any assets remain after the complete allocation for the foregoing purposes of this Article 13, they shall be returned to the Employer.

If the allocable assets are insufficient to provide in full for the allocations under any of the foregoing paragraphs after the provision for all allocations under previous paragraphs, each allocation under such paragraph as to which assets are insufficient shall be reduced pro-rata.

No allocations will be made under the foregoing Section with respect to any benefits accrued under the Plan after the Secretary of the Treasury has issued notice that the Plan does not meet the requirements of Section 401(a) of the Code.

13.05 DISTRIBUTION MEDIA

The allocations for which provision is made in this Article 13 may be accomplished through:

- (a) group contracts or individual annuity contracts; or
- (b) cash, or
- (c) any combination of the foregoing.

ARTICLE 14—DISTRIBUTION LIMITATIONS AND EARLY TERMINATION PROVISIONS

14.01 DISTRIBUTION LIMITATIONS

- (a) For purposes of this Section 14.01, the following terms shall have the indicated meaning:
- (i) **"Benefits"** means the sum of the Participant's accrued benefit and all other benefits to which he is entitled under the Plan, but excluding any death benefit provided for by insurance on the Participant's life.
 - (ii) **"Restricted Participant"** means, with respect to a Plan Year, a Highly Compensated Employee who is a Participant and who, if there are more than 25 Highly Compensated Employees, is one of the 25 Highly Compensated Employees with the highest Total Annual Pay, as defined in subparagraph (iii) below.

An individual who is a Restricted Participant in a Plan Year shall be a Restricted Participant in a subsequent Plan Year only if he satisfies the conditions of the previous sentence in such subsequent Plan Year.

If more than one individual has the same Total Annual Pay, the younger individual shall be deemed to have the higher Total Annual Pay.
 - (iii) **"Total Annual Pay"** means, with respect to any Plan Year:
 - (A) In the case of a Highly Compensated Employee who is not currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation (as defined in Section 5.04(c)) for the Plan Year in which he ceased to be employed by the Employer or an Affiliated Employer, or his Section 415 Compensation for the Plan Year immediately preceding that Plan Year, and
 - (B) In the case of a Highly Compensated Employee who is currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation for the Plan Year in question or for the prior Plan Year.
- (b) Subject to paragraph (c) below, a Restricted Participant may not receive his Benefits under this Plan in the form of a single lump sum payment, or other benefit form under which payments during a single year would exceed the annual payments that would be made on behalf of such Participant under a single life annuity that is the Actuarial Equivalent of his benefits (other than the benefits described in paragraph (c)(iii) below).
- (c) The limitation of paragraph (b) above shall not apply:
- (i) to any payment, if the value of Plan assets after such payment equals or exceeds 110% of the value of the Plan's "current liabilities" (within the meaning of Section 412(1)(7) of the Code); or
 - (ii) if the value of the Restricted Participant's Benefit is less than 1% of the value of such current liabilities, or
 - (iii) to payment of benefits attributable to transferred balances from defined contribution plans or to employee contributions.
- (d) In the event that Congress provides by statute, or the Internal Revenue Service provides by regulation or ruling, that the limitations set forth in this Section 14.01 are not necessary for the Plan to meet the requirements of Section 401(a) or other applicable provisions of the Code then in effect, such limitations shall become void and shall no longer apply without the necessity of further amendment to the Plan.

- (e) Notwithstanding the foregoing, the limitations of paragraph (b) above shall not apply to any Restricted Participant otherwise subject thereto who enters into a prior written agreement with the Committee to the effect that if the Plan is terminated and distribution of benefits has been or will be made to such Participant regardless of the limitation of paragraph (b) above, such Participant (or, in the case of his death, his estate or representatives) shall repay to the Trustee a sum equal to the total amounts by which his benefits under the Plan shall exceed benefits determined under the preceding limitation ("Restricted Benefits").

15.01 TOP HEAVY PROVISIONS

(a) For purposes of this Section, the following terms shall have the meanings indicated below:

(i) **"Aggregation Group "** means either:

- (A) A **"Permissive Aggregation Group"**. The Committee may also include any other qualified plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Sections 401(a)(4) and 410 of the Code. Such group shall be known as a Permissive Aggregation Group.
- (B) A **"Required Aggregation Group"**. In determining a Required Aggregation Group hereunder, each qualified plan of the Employer or an Affiliated Employer in which a Key Employee participates and each other plan of the Employer or an Affiliated Employer, including terminated plans maintained within the one-year period ending on the Determination Date, which enables any plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) or 410 of the Code will be required to be aggregated. Such group shall be known as a Required Aggregation Group. Notwithstanding the foregoing, the Required Aggregation Group will not include "safe harbor" plans described in Section 401(k)(12) and 401(m)(11) of the Code.

Solely for purposes of determining if the Plan or any other qualified plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits of Non Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or Affiliated Employers or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

In no event shall this Plan be considered a top heavy plan if it is part of a Required Aggregation Group or a Permissive Aggregation Group that is not a top heavy group.

Only those plans of the Employer or Affiliated Employers in which the determination dates fall within the same calendar year shall be aggregated in order to determine whether such plans are top heavy plans.

- (ii) **"Determination Date"** means the last day of the preceding Plan Year, except that for the first Plan Year the Determination Date is the last day of that Plan Year.
- (iii) **"Employee", "Former Employee", "Key Employee" and "Non Key Employee"** shall also include Beneficiaries of such an employee.
- (iv) **"Key Employee"** means any employee or former employee (including any deceased employee) of the Employer or an Affiliated Employer who at any time during the Plan Year containing the Determination Date for the Plan Year in question is:
 - (A) An officer of the Employer or Affiliated Employer, if such individual received Section 415 Compensation of more than \$130,000 as adjusted. No more than 50 employees (or, if lesser, the greater of 3 employees or 10% of the employees) shall be treated as officers (exclusive of employees described in Section 414(q)(8) of the Code).

- (B) A 5% owner of the Employer or an Affiliated Employer. A "5% owner" means a person owning (or considered as owning, within the meaning of Section 318 of the Code) more than 5% of the outstanding stock of the Employer or an Affiliated Employer, or stock possessing more than 5% of the total combined voting power of all stock of the Employer or an Affiliated Employer (or having more than 5% of the capital or profits interest in any Employer or Affiliated Employer that is not a corporation determined under similar principles).
- (C) A 1% owner of the Employer or an Affiliated Employer having Section 415 Compensation of more than \$150,000. A "1% owner" means any person who would be described in paragraph (a)(iv)(B) above if "1%" were substituted for "5%" in each place where it appears in paragraph (a)(iv)(B).

A Key Employee shall be determined in accordance with the provisions of Section 416(i) of the Code.

- (v) **"Non Key Employee"** means an employee who is not a Key Employee, including any employee who is a former Key Employee.
- (vi) **"Valuation Date"** means the date used to calculate the value of accrued benefits or account balances for purposes of determining the top heavy ratio specified in paragraph (b) below.

For purposes of this Plan, the Valuation Date shall be the valuation date used for computing the Plan's minimum funding requirements under Section 412 of the Code. For each other plan, the Valuation Date shall be, subject to Section 416 of the Code, the most recent Valuation Date which falls within or ends within the twelve consecutive months ending on the applicable determination date for such plan.

(b) **Top Heavy Plan**

The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

- (i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the one-year period ending on the Determination Date (in the case of any distribution made for a reason other than separation from service, death or disability, the five-year period ending on the Determination Date) shall be taken into consideration.
- (ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the one-year period ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such one-year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall have credited to his defined contribution plan account a minimum Employer contribution equal to the minimum contribution provided by such defined contribution plan; however, in no event shall the minimum Employer contribution be less than 5% of such Participant's Section 415 Compensation. No Minimum Benefit shall accrue under this Plan.

- (iii) If an Employee is a Non Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.
- (iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Non Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.
- (v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.
- (vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.02(a).
- (vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.
- (viii) "Deductible employee contributions" (within the meaning of Section 501(c)(18)(D) of the Code) contributed to any plan in the Aggregation Group shall not be taken into consideration.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

- (c) Notwithstanding any other provision of the Plan to the contrary, for any Plan Year in which the Plan is deemed to be a top heavy plan, the following provisions shall apply:

- (i) **Minimum Vesting**

Any Participant who completes an Hour of Service in a Plan Year in which the Plan is deemed to be a top heavy plan shall have a nonforfeitable interest in a percentage of his or her Accrued Benefit determined by multiplying the Accrued Benefit by the applicable percentage from the following schedule:

Years of Vesting Service	Vested Percentage
Less than 3 years	0%
3 or more years	100%

Furthermore, if the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule.

The provisions of this paragraph (c)(i) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of the Plan.

(ii) Minimum Benefit

Each Participant who is a Non-Key Employee shall have an Accrued Benefit calculated as of the last day of the top heavy Plan Year or, if earlier, as of his or her termination of employment date occurring during such Plan Year, at least equal to the product of (A) 2% of his or her Section 415 Compensation (as defined in Section 415(c) of the Code) from an Employer or Affiliated Employer during the five consecutive years for which the Participant had the highest Compensation, and (B) his or her years of Benefit Service up to a maximum of ten years. For purposes of this paragraph (ii), years of Benefit Service shall not include Plan Years during which the Plan is not a top heavy plan nor a Plan Year in which no Key or former Key Employee benefits under the Plan.

For purposes of this Plan, the minimum annual retirement benefit means a benefit payable annually in the form of a single life annuity (with no ancillary benefits) beginning at a Participant's Normal Retirement Date.

If a Non-Key Employee participates in a defined contribution plan included in the Aggregation Group, the minimum benefit shall be provided under this Subsection.

(iii) In any Plan Year that the Plan ceases to be top heavy, the above provisions shall no longer apply, except that the portion of a Participant's Accrued Benefit which was vested pursuant to paragraph (i) above shall remain vested.

ARTICLE 16—MISCELLANEOUS

16.01 RIGHTS AGAINST THE EMPLOYER

Neither the establishment of the Plan, nor the Trust Fund, nor any modification thereof, nor the payment of benefits hereunder shall be construed as giving any Employee or Participant the right to be retained in the service of the Employer or as interfering with the right of the Employer to discharge any Employee at any time.

16.02 RETURN OF CONTRIBUTIONS

- (a) In the event that the Commissioner of Internal Revenue (or his or her delegate) determines that the Plan is not initially qualified under the Code, any Employer contributions made to the Plan shall be returned to the Employer within one year after the date the initial qualification is denied, provided application for qualification is made by the time prescribed by law for filing the Employer's return for the fiscal year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe.
- (b) Nothing herein shall prohibit a return to the Employer, within one year after payment, of excess sums contributed to the Trust Fund as a result of a mistake of fact.
- (c) Each employer contribution is specifically conditioned on the deductibility of the contribution under Section 404 of the Code, and to the extent such contribution, or any part thereof, is disallowed, the contribution, or any part thereof that is disallowed, shall be returned to the Employer within one year after the date of disallowance.
- (d) The return of a contribution to the Employer pursuant to paragraph (b) or (c) above shall be permitted hereunder only if the amount so returned (i) is the excess of the amount actually contributed over the amount which would have otherwise been contributed, (ii) does not include the earnings attributable to such contribution and (iii) is reduced by any losses attributable to such contribution.

16.03 MERGER

Unless otherwise permitted by law or regulations, the Plan shall not be merged into, or consolidated with, nor shall any assets or liabilities be transferred to, any other pension or retirement plan under circumstances resulting in a transfer of assets or liabilities from the Plan to such other plan unless immediately after any such merger, consolidation or transfer each Employee would if such other plan then terminated, receive a benefit which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer, if the Plan had then terminated.

16.04 LEASED EMPLOYEES

For purposes of the Plan, the term "leased employee" means any person who would not otherwise be considered an Employee but who, pursuant to an agreement between the Employer or an Affiliated Employer and a leasing organization (within the meaning of Section 414 (n)(2) of the Code) has performed services for the Employer or Affiliated Employer on a substantially full time basis for a period of at least one year, and such services are performed under the primary direction or control of the Employer or Affiliated Employer. Contributions or benefits provided a leased employee by the leasing organization which are attributable to services performed for the Employer or Affiliated Employer shall be treated as provided by the Employer or Affiliated Employer.

A leased employee shall not be considered an Employee if:

- (a) Such individual is covered by a money purchase pension plan providing (i) a nonintegrated employer contribution rate of at least ten percent of his "Section 415 Compensation" (as defined in Section 5.04(c)), but including amounts contributed pursuant to a salary reduction agreement which are not includable in gross income under Section 125, 402(a)(8), 402(h), or 403(b) of the Code, (ii) immediate participation, and (iii) full and immediate vesting; and
- (b) leased employees constitute twenty percent or less of the Employer's or Affiliated Employer's nonhighly compensated workforce (within the meaning of Section 414(n)(5)(C)(ii) of the Code).

16.05 APPLICABLE LAW

The provisions of this Plan shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts.

16.06 HEADINGS

The headings of the Plan are inserted for convenience of reference only, and shall have no effect upon the meaning of the provisions hereof.

16.07 GENDER AND NUMBER

Wherever used in this instrument, a masculine person shall be deemed to include the masculine and feminine gender, and a singular word shall be deemed to include the singular and plural, in all cases where the context requires.

IN WITNESS WHEREOF, Watts Water Technologies, Inc. has caused this instrument to be executed by its authorized officer and its seal affixed hereto this day of, 2007.

WATTS WATER TECHNOLOGIES, INC.

(seal)

By _____

PART A

**WATTS WATER TECHNOLOGIES, INC.
PENSION PLAN**

WATTS WATER TECHNOLOGIES, INC.

HOURLY PENSION PLAN

(Amended and Restated Effective as of January 1, 2006)

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INTRODUCTION

The Watts Industries, Inc. Hourly Pension Plan, previously known as the Watts Regulator Co. Hourly Pension Plan, (hereinafter the "Plan") was established, effective January 1, 1985, as a successor to and a continuation of (i) the Webster Foundry Division Hourly Pension Plan, (ii) the Webster Valve Division Hourly Pension Plan, and (iii) the Regtrol, Inc. Hourly Pension Plan (hereinafter the "Prior Plans").

Effective October 18, 1999, all liabilities determined as of October 18, 1999 attributable to active Participants who become Employees of CIRCOR International, Inc. ("CIRCOR") as a result of the corporate spin-off and all allocable assets associated with such liabilities as determined pursuant to Section 4044 of ERISA using the "safe harbor" assumptions used by the Pension Benefit Guaranty Corporation, as required by Treasury Regulation Section 1.414(l)-1(b)(5)(ii), shall be transferred to the CIRCOR International, Inc. Retirement Plan for Hourly Employees (CIRCOR Hourly Plan).

The physical transfer of assets shall be completed as soon as practicable following receipt by CIRCOR of a favorable determination letter from the Internal Revenue Service to the effect that the CIRCOR Hourly Plan meets the qualification requirements of Code Section 401(a) or an opinion from CIRCOR's legal counsel reasonably satisfactory to Watts Industries, Inc. to the effect that the CIRCOR Hourly Plan meets the qualification requirements of Code Section 401(a).

The amount of assets to be transferred to the CIRCOR Hourly Plan will be equal to the October 18, 1999 allocated amount, which shall be based on the fair market value of Plan assets as of October 18, 1999 plus any portion of the minimum required contribution for the 1999 Plan year not contributed by October 18, 1999, plus investment return as earned by the trust from October 18, 1999 to the most recent trust statement date prior to the transfer date, plus interest based upon the average of the three-month Treasury bill rates as published by the Wall Street Journal from the most recent monthly trust statement date to the transfer, date, less allocated benefit payments and expenses from October 18, 1999 to the transfer date.

The Plan was last restated by Watts Industries, Inc. (hereinafter the "Sponsoring Employer") effective January 1, 1994 to comply with the Tax Reform Act of 1986, the Omnibus Budget Reconciliation Acts of 1986, 1987, 1989 and 1993, the Technical and Miscellaneous Revenue Act of 1988, and the Unemployment Compensation Amendments of 1992. The Sponsoring Employer is hereby amending and restating the Plan, unless specifically stated otherwise, effective January 1, 1997 to comply with the General Agreement on Tariffs and Trade, the Uniformed Services Employment and Reemployment Rights Act, Small Business Job Protection Act of 1996, the Tax Reform act of 1997, and the Internal Revenue Service Restructuring and Reform Act of 1998.

Effective December 31, 2001, the Plan shall be merged into the Watts Industries, Inc. Retirement Plan for Salaried Employees, which effective January 1, 2002 shall be renamed the Watts Industries, Inc. Pension Plan and its terms and conditions shall be incorporated into and made a part thereof as Part A.

Effective October 15, 2003, Watts Industries, Inc. has changed its name to Watts Water Technologies, Inc. (formerly known as Watts Industries, Inc.).

Additional changes have been made to the Plan adding additional Employers and making other changes.

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

ARTICLE 1—DEFINITIONS

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

- 1.01 **"Actuarial Equivalent"** or any term of similar import, wherever used in the Plan, means a benefit of equivalent value determined as follows:
- (a) For purposes of any determination requiring actuarial equivalence under Article 14:
 - (1) For determination dates occurring prior to the Plan Year beginning January 1, 2006, the Actuarial Equivalent will be determined using a 5% interest rate and the UP-1984 Mortality Table for Employees and the UP-1984 Mortality Table set back three years for Beneficiaries;
 - (2) For determination dates occurring on or after January 1, 2006, the Actuarial Equivalent will be determined using a 5% interest rate and the mortality table prescribed in Revenue Ruling 2001-62.
 - (b) For purposes of Section 12.01, 12.02, or for a form of payment that decreases during the life of the Participant merely because of the cessation or reduction of Social Security supplements, and for any lump sum distribution date occurring on or after January 1, 2003, Actuarial Equivalent will be determined by using the mortality table defined in Code Section 417(e)(3)(A)(ii)(I) and using an interest rate equal to the rate defined in Code Section 417(e)(3)(A)(ii)(II) for the month of November immediately preceding the Plan Year of the distribution date. For purposes of this subsection, the term "distribution date" means the date as of which an amount is paid.
 - (c) For purposes of Article 13, the Actuarial Equivalent will be determined as specified in regulations promulgated by the Pension Benefit Guaranty Corporation.
 - (d) For all other purposes, the Actuarial Equivalent will be determined using a 6% interest rate and the mortality table prescribed in Revenue Ruling 2001-62.
- 1.02 **"Actuary"** means the actuarial consultant or actuarial consultants designated from time to time to make actuarial computations in connection with the Plan.
- 1.03 **"Affiliated Employer"** means any of the following (other than the Employer):
- (a) Any corporation which is a member of a controlled group of corporations which includes the Employer, determined under the provisions of Section 414(b) of the Code;
 - (b) Any trade or business which is under common control (as defined in Section 414(c) of the Code) with the Employer;
 - (c) Any organization which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes the Employer; and
 - (d) Any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.
- A corporation, trade or business or member of an affiliated service group shall be treated as an Affiliated Employer only while it is a member of the controlled group.
- 1.04 **"Beneficiary"** means any person other than a Contingent Annuitant entitled to receive any death benefits payable upon the death of the Participant.
- 1.05 **"Benefit Commencement Date"** means the first day of the month on which an amount is paid in accordance with the provisions of the Plan. If benefit payments are suspended pursuant to

Section 5.07 for a Participant who has not terminated employment and who does not receive a benefit payment, the recommencement of benefit payments shall be treated as a new Benefit Commencement Date.

- 1.06 **"Board of Directors" or "Board"** means the Board of Directors of the Sponsoring Employer.
- 1.07 **"Code"** means the Internal Revenue Code of 1986, as amended from time to time. Reference to a specific provision of the Code shall include such provision, any valid regulation or ruling promulgated thereunder, and any provision of future law that amends, supplements, or supersedes such provision.
- 1.08 **"Committee"** means the Pension Committee appointed to administer the Plan as set forth in Article 10.
- 1.09 **"Contingent Annuitant"** means the person designated by the Participant to receive a benefit under the Contingent Annuitant Option following the death of the Participant in accordance with Article 8.
- 1.10 **"Effective Date"** means January 1, 1997 for this restated Plan. The original Effective Date of the Plan is January 1, 1985.
- 1.11 **"Eligible Employee"** means any person who is an Employee of the Employer and whose remuneration is regularly computed on an hourly, daily, piecework, or other comparable basis, thereby excluding any person whose remuneration is regularly computed on an annual, monthly, semi-monthly, weekly, commission or other comparable basis. The term "Employee" shall not include any person employed by the Employer who is covered under a collective bargaining agreement which does not provide for participation in this Plan, or any Employee who is a leased employee within the meaning of Section 414(n)(2) of the Code.
- 1.12 **"Employee"** means any person currently employed by the Employer or an Affiliated Employer. The term "Employee" also includes any leased employees of the Employer or an Affiliated Employer within the meaning of Section 414(n)(2) of the Code to the extent such employees are deemed to be "Employees" in accordance with the provisions of Section 15.04.
- 1.13 **"Employer"** means Watts Water Technologies, Inc. (formerly known as Watts Industries, Inc.) or any successor thereto, and any other entity which now or hereafter affiliated with Watts Water Technologies, Inc which adopts the Plan by the vote of its Board with the consent of Watts Water Technologies, Inc. The following entities affiliated with Watts Water Technologies, Inc. have adopted the Plan and are therefore considered to be an Employer: Watts Regulator Co., KF Industries, Inc., Leslie Controls, Inc., Rudolph Labranche, Inc., Watts Automatic Control Valve Co., Inc., Circle Seal Controls, Inc., Anderson-Barrows Metal Corporation and Webster Valve, Inc. Effective January 1, 2001, the term "Employer" also includes McCraney, Inc. (dba "Spacemaker") and "Watts Heatway, Inc." (now called Watts Radiant, Inc.) Effective October 18, 1999, Industrial Products Division, KF Industries, Inc., Circle Seal Controls, Inc. and Leslie Controls are no longer considered to be an Employer due to their spinoff to CIRCOR International, Inc. Effective January 1, 2002, the term "Employer" includes Watts Distribution Company, Inc. Effective June 20, 2005, the term "Employer" includes Alamo Water Refiners, Inc. Effective January 1, 2006, the term "Employer" includes Core Industries, Inc., Flowmatic Systems, Inc., H. F. Scientific, Inc., Orion Enterprises, Inc., and Watts Sea Tech, Inc.
- The term "Employer" also includes all of the foregoing as the context may require.
- 1.14 **"ERISA"** means the Employee Retirement Income Security Act of 1974, as amended from time to time. Reference to a specific provision of ERISA shall include such provision, any valid regulation or filing promulgated thereunder, and any provision of future law that

- 1.15 **"Fiduciary"** means the Employer, the Committee, the Trustee, and/or other parties named as Fiduciaries pursuant to Section 10.1, but only with respect to the specific responsibilities of each for Plan and Trust administration, as described in Article 10.
- 1.16 **"Highly Compensated Employee"** means, with respect to a Plan Year, any Employee who performs services for the Employer or an Affiliated Employer during the Determination Year and who:
- (a) Was a 5% owner (within the meaning of Section 416(i)(1)(B)(i) of the Code) at any time during the Determination Year or Look Back Year; or
 - (b) Received compensation from the Employer or an Affiliated Employer in excess of \$80,000 (as adjusted pursuant to Section 415 (d) of the Code) during the Look Back Year; and was among the top 20% of Employees when ranked on the basis of compensation paid during the Look Back Year.

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

For purposes of determining an Employee's compensation under this Section, compensation shall mean the Employee's Section 415 Compensation (as defined in Section 5.04(c)), but including any amounts contributed on behalf of the Employee by an Employer or Affiliated Employer pursuant to a salary deferral agreement under this Plan (or any other cash or deferred arrangement described in Section 401(k) of the Code), to any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code, or effective January 1, 2001 any amounts deferred under Section 132(f)(4) of the Code.

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

- 1.17 **"Limitation Year"** means the calendar year.
- 1.18 **"Normal Retirement Age"** means the Participant's age on the later of:
- (a) the Participant's 65th birthday; or
 - (b) the fifth anniversary of the date on which the Participant began participation in the Plan.
- 1.19 **"Participant"** means any Employee who has satisfied the eligibility requirements for participation in the Plan as set forth in Article 3 and is a Participant hereof.
- 1.20 **"Plan"** means Part A of the Watts Water Technologies, Inc. Pension Plan.
- 1.21 **"Plan Administrator"** means the Committee, notwithstanding the fact that certain administrative functions under or with respect to this Plan may have been delegated to any other person, persons, or entity.
- 1.22 **"Plan Year"** means the twelve-month period beginning on January 1 and ending on the following December 31.
- 1.23 **"Prior Plan"** means each or all, as the context may require, of the following: (a) the Webster Foundry Division Hourly Pension Plan, (b) the Webster Valve Division Hourly Pension Plan, and (c) the Regtrol, Inc. Hourly Pension Plan.

- 1.24 **"Retired Participant"** means a former Participant who has retired under the terms of the Plan and who has become eligible to receive benefits under the Plan.
- 1.25 **"Social Security Retirement Age"** means:
- (a) for persons born prior to 1938, age 65;
 - (b) for persons born in 1938 or later but prior to 1955, age 66; and
 - (c) for persons born in 1955 or later, age 67.
- 1.26 **"Sponsoring Employer"** means Watts Industries, Inc. or any successor thereto.
- 1.27 **"Terminated Participant"** means a former Participant who has ceased to be an Employee prior to his Normal Retirement Date (as defined in Section 4.01) for any reason other than death or retirement in accordance with the terms of the Plan.
- 1.28 **"Trust"** means the agreement between the Employer and the Trustee which constitutes part of this Plan, or any other trust created by agreement between the Employee and a Trustee named therein which shall also constitute a part of this Plan, as the same may be amended from time to time.
- 1.29 **"Trust Fund"** or **"Trust"** means the Watts Water Technologies, Inc. Master Trust maintained in accordance with the terms of the agreement under which the Trust was established as it may be amended from time to time.
- 1.30 **"Trustee"** means the person, persons, or entity named as Trustee, or any successor to that office.

ARTICLE 2—SERVICE

2.01 SERVICE PRIOR TO JANUARY 1, 1985

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

2.02 VESTING AND ELIGIBILITY SERVICE ON OR AFTER JANUARY 1, 1985

An Employee must accumulate at least 1,000 Hours of Service during a 12-month computation period in order to be credited with a year of Service for vesting and eligibility purposes. The 12-month computation period for purposes of determining a year of Service for vesting under Section 6.02 is the Plan Year. The 12-month computation period for purposes of determining a Year of Service for eligibility under Section 3.01 is the 12-month period beginning when the Employee first performs an Hour of Service and the subsequent computation periods shall be the Plan Year beginning with the Plan Year that includes the first anniversary of the date the Participant first performs an Hour of Service.

If an Employee, who has not incurred a Break in Service, fails to complete at least 1,000 Hours of Service during such Plan Year, he shall be credited with a portion of a year of Service as provided in the following:

Hours of Service	Service (1.0 = 1 year)
1,000 or more	1.0
936-999	.5
728-935	.4
501-727	.3
less than 501	0

During any computation period in which an Employee's Hours of Service cannot be determined, the Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes one Hours of Service.

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

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

Service shall be considered broken by the following, provided that Service will not be broken during any Plan Year in which an Employee completes more than 500 Hours of Service:

- (a) voluntary quit;
- (b) discharge;
- (c) illness or injury in excess of one year;
- (d) layoff in excess of one year;
- (e) authorized leave of absence in excess of one year; or
- (f) failure to return to the Service of the Employer upon the expiration of an authorized leave of absence; or within the period of time entitling an Employee to reemployment rights after discharge from the Armed Forces of the United States of America.

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

2.02.2 BREAK IN SERVICE RULES APPLICABLE TO YEARS OF SERVICE ON AND AFTER JANUARY 1, 1985

If an Employee whose service is broken is subsequently reemployed by the Employer or an Affiliated Employer and completes one year of Service, as provided in Section 3.03, his prior Service shall be reinstated as of his reemployment date, provided the conditions of (a) or (b) below have been met:

- (a) if he had met the requirements for a Vested Benefit under Article 6 at the time his prior Service was broken; or
- (b) if he has not met the requirements for a Vested Benefit, and the date of reemployment is on or after January 1, 1985, and upon his reemployment, the number of consecutive one-year Breaks in Service between the date his prior Service is deemed broken and his date of reemployment does not equal or exceed the greater of five (5) years or the aggregate number of his years of Service prior to his most recent Break in Service.
- (c) Effective October 1, 2001, if a Participant incurs a Break-in-Service and is subsequently reemployed and he thereafter meets the definition of Eligible Employee and completes one year of Service, as provided in Section 3.03, his prior Service shall be reinstated as of his date of reemployment.

2.03 HOUR OF SERVICE DEFINED

Hour of Service means:

- (a) Each hour for which an Employee is directly or indirectly paid or entitled to payment for the performance of duties for the Employer or an Affiliated Employer; such hours to be credited to the computation period in which the duties are performed;
- (b) Each hour for which an Employee is directly or indirectly paid or entitled to payment on account of a period of time during which no duties are performed for the Employer or an Affiliated Employer (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), lay-off, jury duty, military duty or leave of absence (but excluding any payments made or due under a plan maintained solely for the purpose of complying with workmen's compensation, unemployment compensation, or disability insurance laws); provided, however, that no more than 501 hours shall be credited to an Employee under this paragraph (b) on account of any single continuous period of absence;
- (c) Each hour, not credited under (a) or (b) above during any absence listed in Section 2.02, which does not break his Service, provided that the Employee retires or returns to the employ of the Employer or an Affiliated Employer upon the expiration of such absence;
- (d) Each hour not counted under paragraphs (a), (b), or (c) above for which back pay, irrespective of mitigation of damages, is awarded or agreed to by the Employer or an Affiliated Employer; such hours to be credited under the computation period to which the back pay award or agreement is applicable;
- (e) Hours credited under paragraphs (b) and (c) above shall be computed on the basis of the number of hours for which the Employee would have been compensated if he had continued to work his regular work schedule during his period of absence; provided, however, that in the case of hours credited under paragraph (b), such number of hours shall not be less than the

number of hours the Employee would receive if such computation had been made in accordance with the provisions of Section 2530.200b-2(b) and (c) of the Labor Department Regulations which are incorporated herein by reference;

- (f) Solely for purposes of determining whether a Break-in-Service has occurred with respect to Section 2.02.1, each non-compensated hour during a period of absence from the Employer (i) by reason of the Employee's pregnancy, (ii) by reason of the birth of the Employee's child, (iii) by reason of the placement of a child with the Employee in connection with the adoption of such child by the Employee, or (iv) for purposes of caring for such child for a period beginning immediately following such birth or placement shall be credited to the Employee. For purposes of this subsection (f) the following special rules will apply:
- (i) any Hour of Service credited hereunder with respect to an absence shall be credited (A) only in the Plan Year in which the absence begins, if the Employee would be prevented from incurring a Break-in-Service in such year solely because of Hours of Service credited hereunder for such absence, or (B) in any other case in the immediately following Plan Year;
 - (ii) no Hours of Service shall be credited hereunder unless the Employee furnishes the Committee with such information as the Committee may reasonably require (in such form and at such time as the Committee may reasonably require) establishing (A) that the absence from work is an absence described hereunder, and (B) the number of days for which the absence lasted;
 - (iii) in no event shall more than 501 Hours of Service be credited to an Employee hereunder for any absence by reason of any one pregnancy or the placement of any one child.

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

2.04 BENEFIT SERVICE PRIOR TO JANUARY 1, 1985

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

2.05 BENEFIT SERVICE ON AND AFTER JANUARY 1, 1985

With respect to employment on and after January 1, 1985, Benefit Service, for purposes of determining an Eligible Employee's benefit under the Plan, means his years of Service earned as an Eligible Employee. Each Plan Year an Eligible Employee shall be credited with a year of Benefit Service provided he is credited with 2080 Hours of Service in such Plan Year. In the event an Eligible Employee does not complete 2080 Hours of Service during the Plan Year a partial year of Benefit Service (computed to the nearest 1/10th year) shall be credited by dividing his total number of Hours of Service earned as an Eligible Employee in such Plan Year by 2,080. However, an Eligible Employee shall not be credited with any Benefit Service based upon Hours of Service earned prior to his twenty-first birthday, nor shall he be credited with more than one full year of Benefit Service for any one Plan Year.

During any computation period in which an Eligible Employee's Hours of Service can not be determined, the Eligible Employee shall be credited with 190 Hours of Service for each month during such period in which he or she completes one Hours of Service.

Notwithstanding any other provisions to the contrary, Benefit Service shall be measured commencing with the date set forth in Section 3.01(b).

2.06 VETERAN'S BENEFITS

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

ARTICLE 3—PARTICIPATION

3.01 PARTICIPATION REQUIREMENTS

- (a) Subject to the provisions of paragraph (b) below:
 - (i) Any Eligible Employee who was a Participant on December 31, 1996 shall continue to participate in the Plan as of January 1, 1997 in accordance with the provisions of this restated Plan.
 - (ii) Any eligible employee who has both attained age 21 and completed at least one year of Service as of the Effective Date shall become a Participant on the Effective Date.
 - (iii) Any other Eligible Employee shall become a Participant on the first day of the month coinciding with or next following the date on which he has both attained age 21 and completed at least one year of Service, provided he is then an Eligible employee.
- (b) Notwithstanding any provision in the Plan to the contrary, Service with the entities listed below shall be taken into account in accordance with the following provisions:
 - (i) Effective January 1, 1989, an Eligible Employee of KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or Watts Automatic Control Valve Company shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with KF Industries, Inc., Leslie Controls, Inc., Rudolph LaBranche, Inc., or Watts Automatic Control Valve Company prior to January 1, 1989 shall count in determining whether such Employee has satisfied the one year of Service requirement.
 - (ii) Effective September 7, 1990, an Eligible Employee of Circle Seal Controls, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with Circle Seal Controls, Inc. prior to September 7, 1990 shall count in determining whether such Employee has satisfied the one year of Service requirement.
 - (iii) Effective January 1, 1991, an Eligible Employee of Eagle Valve Company, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with Eagle Valve Company, Inc. prior to January 1, 1991 shall count in determining whether such Employee has satisfied the one year of Service requirement.
 - (iv) Effective January 1, 1993, an Eligible Employee of Contromatics, Inc. shall be eligible to join the Plan on the first day of the month coinciding with or next following the date on which he attains age 21 and completes one year of Service. An Eligible Employee's service with Contromatics, Inc. prior to January 1, 1993 shall count in determining whether such Employee has satisfied the one year of Service requirement.
 - (v) Effective April 1, 1998, an Employee of Aerodyne Controls Corporation who became an Eligible Employee of Circle Seal Corporation on January 5, 1998 shall be eligible to

participate in the Plan on the first day of the month next following the date on which he attains age 21 and completes one year of Service.

An Eligible Employee's service with Aerodyne Controls Corporation prior to January 5, 1998 shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing April 1, 1998."

- (vi) Effective January 1, 1997, an employee of Consolidated Precision Corp. who became an employee of Circle Seal Controls, Inc. shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of January 1, 1997 or the date such Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Consolidated Precision Corp., prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1997.
- (vii) Effective January 1, 1997, an hourly employee of Anderson Barrows Metals Corporation shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 1997 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Anderson Barrows Metals Corporation prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1997.
- (viii) Effective January 1, 1998, an hourly employee of Ames Company, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 1998 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Ames Company, Inc. prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 1998.
- (ix) An hourly employee of Keane Controls Corporation who became an employee of Circle Seal Controls, Inc. shall become an Eligible Employee for purposes of the Plan and shall become a Participant in the Plan as of the later of August 31, 1995 or the date such Eligible Employee meets the requirements of Section 3.01(a). An Eligible Employee's service with Keane Controls Corporation, prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting purposes. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing August 31, 1995
- (x) Notwithstanding the above, effective October 18, 1999, service with KF Industries, Inc., Circle Seal Controls, Inc., Aerodyne Controls Corporation, Leslie Controls, Inc. Consolidated Precision Corporation and the Industrial Products Division shall not be taken into account for any reason due to the spin-off of those entities to CIRCOR International, Inc.
- (xi) Effective January 1, 2001, an hourly employee of McCraney, Inc. (dba "Spacemaker") or Watts Heatway, Inc. (now called Watts Radiant, Inc.) shall be come an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2001 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with of McCraney, Inc. (dba "Spacemaker") or Watts

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

- (xii) Effective November 1, 2001, an hourly employee of Power Process Controls Division of Marks Controls Corporation ("PPC"). shall be come an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of November 1, 2001 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with PPC prior to its acquisition by the Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing November 1, 2001.
- (xiii) Effective January 1, 2002, an hourly employee of Premier Manufactured Systems, Inc. shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2002 or the date such Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Premier Manufactured Systems, Inc. prior to its acquisition by the Employer, shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2002.
- (xiv) Effective July 1, 2002, an hourly employee of Hunter Innovations, Inc. ("Hunter") who became an Employee as a result of Hunter's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of July 1, 2002 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Hunter Innovation, Inc., Watts Industries, Inc. and Ames Company, Inc. prior to Hunter's acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing July 1, 2002.
- (xv) Effective June 20, 2005, an hourly employee of Alamo Water Refiners, Inc. ("Alamo") who became an Employee as a result of Alamo's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of July 1, 2005 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Alamo prior to Alamo's acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing July 1, 2005.
- (xvi) Effective January 1, 2006, an hourly employee of Flowmatic Systems, Inc. ("Flowmatic") who became an Employee as a result of Flowmatic's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Flowmatic prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.
- (xvii) Effective January 1, 2006, an hourly employee of H.F. Scientific, Inc. ("HFS") who became an Employee as a result of HFS' acquisition by the Sponsoring Employer shall

become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with HFS prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.

- (xviii) Effective January 1, 2006, an hourly employee of Orion Enterprises, Inc. ("Orion") who became an Employee as a result of Orion's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Orion prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.
- (xix) Effective January 1, 2006, an hourly employee of Watts Seatech, Inc. ("Seatech") who became an Employee as a result of Seatech's acquisition by the Sponsoring Employer shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Seatech prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006.
- (xx) Effective January 1, 2006, an hourly employee of Core Industries, Inc. ("Core") who became an Employee as a result of Core's acquisition by the Sponsoring Employer (the "Core Acquisition") shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2006 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Core prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing January 1, 2006. In the case of any hourly Employee (a) who was employed by Core in its DeZurik line of business in St. Pauls, North Carolina, and (b) who became an Employee in June of 2006, such Employee's service with Core prior to the Core Acquisition shall be taken into account for eligibility and vesting; however, such Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing July 1, 2006.

3.02 PARTICIPATION UPON REEMPLOYMENT

Each Participant who is reemployed following a Break in Service pursuant to Section 2.02.1 shall participate as of his reemployment date provided he has met the requirements of Section 2.02.2.

ARTICLE 4—RETIREMENT DATES

4.01 NORMAL RETIREMENT DATE

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

4.02 EARLY RETIREMENT DATE

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

Effective January 1, 1992, a Participant who was hired on or after January 1, 1992 and who has reached his fifty-fifth birthday and has also completed at least ten years of Service may elect upon written notice to the Committee an Early Retirement Date which may be the first day of any month subsequent to the date of such election and prior to his Normal Retirement Date.

4.03 DEFERRED RETIREMENT DATE

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

ARTICLE 5—RETIREMENT BENEFITS

5.01 FORM OF NORMAL RETIREMENT BENEFIT

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

5.02 SPOUSE JOINT AND SURVIVOR ANNUITY

In lieu of the life annuity payable under Section 5.01, a Participant who is married on his Benefit Commencement Date shall receive his retirement benefit in the form of a Spouse Joint and Survivor Annuity as described in Section 5.02.1, provided he has not made an election under Section 5.02.2 to have his benefit paid under the life annuity form described in Section 5.01 or under an optional form described in Section 5.05.1 or Article 8.

5.02.1 AMOUNT OF SPOUSE JOINT AND SURVIVOR ANNUITY

The Spouse Joint and Survivor Annuity shall be a reduced amount payable to a Participant for his lifetime with provision for continuation of 50% of such reduced amount to the Participant's spouse for the duration of the spouse's lifetime after the death of the Participant. All such amounts shall be the Actuarial Equivalent of the benefits set forth hereafter in this Article 5 which are payable on a single life basis.

5.02.2 ELECTION OUT OF SPOUSE JOINT AND SURVIVOR ANNUITY

A married Participant may elect, pursuant to Section 5.02.4, not to receive his benefit in the form of the Spouse Joint and Survivor Annuity by delivering to the Committee, during the election period described below, his written election to have his benefits paid under the form described in Section 5.01 or under an optional form described in Section 5.05.1 or Article 8. The election period with respect to the life annuity form described in Section 5.01 and the Spouse Joint and Survivor Annuity shall be a ninety (90) day period ending on the Participant's Benefit Commencement Date. The Participant may revoke such election by filing a written revocation with the Committee at any time during such election period. The election by a married Participant of an optional form described under Section 5.05.1 or Article 8 shall be made in accordance with the provisions of Section 5.02.4, and Section 5.05.1 or Article 8, whichever is applicable.

5.02.3 INFORMATION FURNISHED TO PARTICIPANT

No fewer than 30 days and no more than 90 days before a Participant's Benefit Commencement Date, the Pension Committee shall furnish each Participant with general information on the Spouse Joint and Survivor Annuity. Such general information shall be in writing and shall include:

- (a) The terms and conditions of the Spouse Joint and Survivor Annuity;
- (b) The Participant's right to elect, and the effect of electing, to waive the Spouse Joint and Survivor Annuity;
- (c) The rights of the Spouse;
- (d) The right to revoke, and the effect of revoking, an election to waive the Spouse Joint and Survivor Annuity;

- (e) The eligibility conditions and material features of the optional forms of payment available under the Plan;
- (f) The relative values of the optional forms of payment available under the Plan; and
- (g) Such other information as may be required under applicable regulations.

The Committee shall also furnish the Participant, upon his written request made within sixty (60) days following the date he is furnished such general information, additional information explaining the financial effect upon his pension (in terms of dollars per pension payment) of making such election. Such additional information shall be furnished to the Participant within thirty (30) days following the date the Participant's written request is received by the Committee.

The notice described above is not required if the Actuarial Equivalent value of the Participant's nonforfeitable Accrued Benefit is less than or equal to \$3,500 (\$5,000 effective October 1, 2001) on the Participant's Benefit Commencement Date.

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

5.02.4 SPOUSAL CONSENT REQUIRED

Notwithstanding anything herein to the contrary, the election by a married Participant of an optional form described in Article 8 or Section 5.05.1 or the normal form described in Section 5.01 shall not take effect unless:

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

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

5.03 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR REGTROL, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Regtrol, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the

benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.50
October 1, 2001	—	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

With regard to an hourly employee of the Jameco Industries, Inc. who was a participant in the Local 888 Pension Fund Plan and who on or after January 1, 1997 transferred to Regtrol, Inc. (Transferred Jameco Participants), the following provisions shall apply:

- (a) The benefit formula set forth in the preceding paragraph shall apply to Transferred Jameco Participants who are vested under the Local 888 Pension Fund Plan at the time of transfer with regard to Benefit Service commencing on the transfer date.
- (b) With regard to Transferred Jameco Participants who are not vested under the collectively bargained multi-employer plan at the time of transfer, such Participants will be credited with benefit service with Jameco Industries, Inc. while a participant in the Local 888 Pension Fund Plan prior to the transfer date based upon the definition of Benefit Service set forth in Section 2.05. The benefit formula set forth in the preceding paragraphs shall apply with regard to such Benefit Service earned prior to the transfer and Benefit Service with the Employer commencing on the transfer date.

5.03.1 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR WEBSTER VALVE DIVISION EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee in the Webster Valve Division and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the Participant's Normal Retirement Date determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.50
October 1, 2001	—	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.03.2 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR WEBSTER FOUNDRY DIVISION EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee in the Webster Foundry Division and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof)

multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	—	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.03.3 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR KF INDUSTRIES, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee in KF Industries, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 18, 1999	\$ 13.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997. Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by KF Industries, Inc. were transferred to and assumed by CIRCOR International Inc.

5.03.4 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR LESLIE CONTROLS, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Leslie Controls, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 18, 1999	\$ 13.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997. Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Leslie Controls, Inc. were transferred and assumed by CIRCOR International Inc.

5.03.5 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR RUDOLPH LABRANCHE, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Rudolph LaBranche, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof)

multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.50
October 1, 2001	—	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.03.6 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR WATTS AUTOMATIC CONTROL VALVE, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Watts Automatic Control Valve, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	—	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

5.03.7 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR CIRCLE SEAL CONTROLS, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Circle Seal Controls, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 18, 2001	\$ 15.00

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Circle Seal Controls, Inc. were transferred and assumed by CIRCOR International Inc.

5.03.8 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR EAGLE VALVE COMPANY, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who was an Eligible Employee of Eagle Valve Company, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof)

multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	—	\$ 15.00

See Appendix A for Benefit Rates in effect prior to January 1, 1997.

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Eagle Value Company, Inc. were transferred and assumed by CIRCOR International Inc.

5.03.9 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR CONTROMATICS, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who was an Eligible Employee of Contromatics, Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 18, 1999	\$ 13.50

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Contromatics, Inc. were transferred and assumed by CIRCOR International Inc.

5.03.10 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR ANDERSON-BARROWS EMPLOYEES

Subject to the provisions of 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Anderson-Barrows Metals Corporation and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	—	\$ 15.00

5.03.11 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR AMES COMPANY EMPLOYEES

Subject to the provisions of 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Ames Company, Inc. who became an Eligible Employee under this Plan and who retires under this Plan shall be equal to the number of years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last

performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 1997	October 1, 2001	\$ 13.00
October 1, 2001	—	\$ 15.00

5.03.12 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR AERODYNE CONTROLS CORPORATION EMPLOYEES

Subject to the provisions of 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Aerodyne Controls Corporation, Inc. who became an Eligible Employee under this Plan and who retires under this Plan shall be equal to the number of years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
April 1, 1998	October 18, 1999	\$ 13.00

Effective October 18, 1999, the assets and liabilities attributable to Participants actively employed by Aerodyne Controls Corporation, Inc. were transferred and assumed by CIRCOR International Inc.

5.03.13 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR MCCRANEY, INC. (DBA "SPACEMAKER") OR WATTS RADIANT, INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of McCraney, Inc. (dba "Spacemaker") or Watts Radiant, Inc. (formerly called Watts Heatway, Inc.) and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 2001	October 1, 2001	\$13.50—McCraney
October 1, 2001	—	\$13.50—Watts Radiant

5.03.14 AMOUNT OF NORMAL RETIREMENT BENEFIT FOR PREMIER MANUFACTURED SYSTEMS INC. EMPLOYEES

Subject to the provisions of Section 5.04, the monthly Normal Retirement Benefit payable to a Participant who is an Eligible Employee of Premier Manufactured Systems Inc. and who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by the benefit rate in effect on the date the Participant last performed an Hour of Service as an Eligible Employee determined in accordance with the following schedule:

Date of Last Hour of Service		
On or After	But Before	Benefit Rate
January 1, 2002	—	\$ 15.00

5.03.15 AMOUNT OF NORMAL RETIREMENT BENEFIT

Notwithstanding any provision of this Plan to the contrary and subject to Section 5.04, the Monthly Normal Retirement Benefit payable to a Participant (i) who is an Eligible Employee of an entity that is included as an Employer under Section 1.13 as of January 1, 2006, (ii) who performed an Hour of Service on or after January 1, 2006 and (iii) who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by \$16.00.

5.04 MAXIMUM ANNUAL BENEFIT

- (a) For Plan Years beginning after 1986, the actual or projected annual amount of a Participant's benefit payable within a Limitation Year shall not exceed the lesser of (i) and (ii) below:
 - (i) the dollar limitation specified in Code Section 415(b)(1)(A). (The new limit specified in Section 415(b)(1)(A) of the Code shall apply only to Participants who are credited with at least one Hour of Service on or after the first day of the first Limitation Year beginning after December 31, 2001.), or
 - (ii) 100% of the Participant's average annual Section 415 Compensation (as defined in paragraph (c) below) for the three consecutive calendar years (or, if his period of employment is less than three years, for his entire period of employment) as a Participant during which he received the greatest aggregate Section 415 Compensation.
- (b) In no event shall the limitations in paragraph (a) above be less than \$10,000 if the Participant has not at any time participated in a defined contribution plan maintained by the Employer or an Affiliated Employer.
- (c) The term "Section 415 Compensation" means wages, salaries, and fees for professional services and other amounts received from the Employer and all Affiliated Employers during the Limitation Year (without regard to whether or not an amount is paid in cash) for personal services actually rendered in the course of employment with the Employer, to the extent such amounts are includable in gross income, including, but not limited to, overtime pay, tips, bonuses, commissions to paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, fringe benefits, reimbursements, and expense allowances, and excluding the following:
 - (i) amounts contributed by the Employer or Affiliated Employer on behalf of the Employee pursuant to a salary deferral agreement under this Plan or any other cash or deferred arrangement described in Section 401(k) of the Code, to any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code, or to any other plan of deferred compensation, and which are not includable in the Employee's gross

income for the taxable year in which contributed, or any distributions from a plan of deferred compensation;

- (ii) amounts realized from the exercise of a non-qualified stock option, or when restricted stock (or property) held by the Employee either becomes free transferable or is no longer subject to a substantial risk of forfeiture;
- (iii) amounts realized with respect to the sale, exchange, or other disposition of stock acquired under a qualified stock option; and
- (iv) other amounts which receive special tax benefits, or contributions made by the Employer (whether or not under a salary reduction agreement) towards the purchase of an annuity described in Section 403(b) of the Code (whether or not the amounts are excludable from the Employee's gross income).

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

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

For Limitation Years beginning on or after January 1, 1998, for purposes of determining Section 415 Compensation, amounts included pursuant to Section 125 of the Code shall include amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

Effective January 1, 2001, "Section 415 Compensation" shall include any amounts deferred under Section 132(f)(4) of the Code.

- (d) The dollar limitation described in paragraph (a)(i) above shall be increased by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code. Such adjustment factor shall be applied to all Participants, including Participants and Beneficiaries receiving benefits from the Plan and to such items as the Secretary shall prescribe.
- (e) For Limitation Years beginning prior to January 1, 2002, if the benefit payable to a Participant commences prior to the Participant's Social Security Retirement Age, but on or after the date he attains age 62, the maximum annual amount determined under paragraph (a)(i) above shall be reduced as follows:
 - (i) if the Participant's Social Security Retirement age is 65, by 5/9ths of 1% for each month by which the commencement of payment of his benefits precedes the month in which he attains age 65; or
 - (ii) if the Participant's Social Security Retirement age is 66 or 67, by 5/9ths of 1% for each of the first 36 months and 5/12ths of 1% for each additional month by which the commencement of payment of his benefits precedes the month in which he attains his Social Security Retirement Age.

For Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences prior to age 62, the maximum dollar limitation defined in

paragraph (a)(i), adjusted by paragraph (d), shall be the actuarial equivalent of such amount payable at age 62. For purposes of this paragraph, actuarial equivalent shall be based on the plan's early retirement reductions or the mortality table specified in Code Section 417(e)(3)(A)(ii)(I) and an interest rate of 5%, whichever produces the smaller amount.

For purposes of this paragraph (e), if the benefit is payable in the form of a contingent annuity form (with the Participant's spouse as beneficiary) or in the Spouse Joint and Survivor Annuity form of payment, the benefit shall be treated as if it were paid in the normal form of payment and no adjustment in the maximum benefit need be made

- (f) Effective for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences after his attainment of age 65, the dollar limitation defined in paragraph (a)(i) above, adjusted by paragraph (d), shall be increased so it is the actuarial equivalent of such amount payable commencing at age 65. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02(d) of Part A, or the mortality table specified in Code Section 417(e)(3)(A)(ii)(I) and an interest rate of 5%, which produces the smaller increase.
- (g) The annual benefit is a retirement benefit under the Plan which is payable annually in the form of a single life annuity. If the benefit payable to a Participant is not in the form of a single life annuity nor in the form of a Spouse Joint and Survivor Annuity, then the maximum annual amount determined under paragraph (a) above shall be reduced in accordance with the applicable regulations so that it is the actuarial equivalent of such amount as payable in the normal form. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02(d) of Part A except that mortality shall be based on the mortality table specified in Code Section 417(e)(3)(A)(ii)(I).
- (h) If the Participant has completed less than 10 years of Plan participation, the maximum annual amount determined under paragraph (a)(i) above shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Plan participation (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.
- (i) If the Participant has completed less than 10 years of Service, the maximum amount determined under Section paragraph (a)(ii) above (without regard to paragraph (a)(i) above) shall be adjusted by multiplying such amount by a fraction, the numerator of which is the Participant's number of years of Service (or parts thereof) and the denominator of which is 10. To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan.
- (j) In no event shall the provisions of paragraph (h) or paragraph (i) above reduce the limitations in paragraph (a) to an amount less than one tenth of such limitations, determined without regard to the provisions of paragraph (h) and paragraph (i).
- (k) If a Participant is, or has ever been, covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's annual benefits from all such plans may not exceed the maximum permissible amount.
- (l) Notwithstanding any other Plan provision to the contrary, with respect to distributions with Benefit Commencement Dates occurring on or after January 1, 2003, the mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C), or (D) of

the Code as set forth in Subsections (e), (f), or (g) of this Section 5.04 of Part A shall be the mortality table specified in Code Section 417(e)(3)(A)(ii)(I).

- (m) Notwithstanding any provision in the Plan to the contrary, for Plan Years beginning in 2004 and 2005, when determining the maximum distribution under Code Section 415(b)(2)(E)(ii), the adjustment for optional forms of payment subject to Code Section 417(e)(3) will use an interest rate assumption of 5.5% or the rate used in the Plan (whichever provides a greater straight life annuity).

5.04.1 LIMITATION APPLICABLE TO DEFINED CONTRIBUTION PLAN PARTICIPANTS

- (a) If a Participant is also a participant in any defined contribution plan maintained by the Employer or an Affiliated Employer, the sum of the defined benefit plan fraction and the defined contribution plan fraction for any year shall not exceed 1.0 as provided in Section 415(e) of the Code and any regulations issued thereunder.
- (b) The **defined benefit fraction** for any Limitation Year is a fraction, the numerator of which is the sum of the Participant's projected annual benefits under all defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of 1.25 times the dollar limit determined under Sections 415(b) and 415(d) of the Code and adjusted in accordance with Section 5.04(h) and (i) for the Limitation Year, or 1.4 times 100% of the Participant's highest average annual Section 415 Compensation (including any adjustments under Section 415(b) of the Code) for any three consecutive years.

Notwithstanding the above, if the Participant was a participant as of the first day of the first Limitation Year beginning after December 31, 1986 in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than 1.25 times the sum of the annual benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plan after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Section 415 of the Code for all Limitation Years beginning before January 1, 1987.

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

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

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

If the Employee was a Participant as of the end of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined contribution plans maintained by the Employer which were in existence on May 6, 1986, the numerator of this fraction will be adjusted if the sum of this fraction and the defined benefit fraction would otherwise exceed 1.0 under the terms of this Plan. Under the adjustment, an amount equal to the product of (1) the excess of the sum of the fractions over 1.0 times (2) the denominator of this fraction, will be permanently subtracted from the numerator of this fraction. The adjustment is calculated using the fractions as they would be computed as of the end of the last Limitation Year beginning before January 1, 1987, and disregarding any changes in the terms and conditions of the Plan made after May 5, 1986, but using the Section 415 limitation applicable to the first Limitation Year beginning on or after January 1, 1987.

- (d) For the purpose of determining the denominators in the preceding two fractions, the maximum benefit allowable and the maximum annual additions shall be deemed to be equal to the lesser of:
 - (i) 140% of the percentage limits, or
 - (ii) 125% of the dollar limits provided in Sections 415(b) and 415(c) of the Code for each such year.
- (e) Any adjustment necessary to comply with the limitations of this section shall be made in the Participant's benefit payable under the relevant defined benefit plan; but under no circumstances may the accrued benefit of a Participant in a defined benefit plan decrease as a result of a Plan amendment to change the combined plan limits.
- (f) Effective January 1, 2001, the provisions of this Section 5.04.1 shall no longer be effective.

5.04.2 AFFILIATED EMPLOYERS

For purposes of Sections 5.04 and 5.04.1, the Employer and all Affiliated Employers shall be considered one employer, and the limitations shall be applicable to the total benefits received from the Employer and all Affiliated Employers. Further, in determining what is an Affiliated Employer for the purposes of these Sections, the phrase "more than 50%" shall be substituted for "at least 80%" each place it appears in Section 1563(a)(1) of the Code.

5.05 EARLY RETIREMENT BENEFIT

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

- (a) a benefit commencing on his Normal Retirement Date (as defined in Section 4.01) in an amount equal to his accrued Normal Retirement Benefit determined in accordance with the provisions of Section 5.03, 5.03.1, 5.03.2, 5.03.3, 5.03.4, 5.03.5, 5.03.6, 5.03.7, 5.03.8, or 5.03.9,

whichever is applicable, based on his years of Benefit Service (including fractions thereof) and the rate of benefit in effect as of his Early Retirement Date;

- (b) a reduced benefit commencing on his Early Retirement Date or the first day of any month thereafter but prior to his Normal Retirement Date, as elected by the Participant, which benefit shall be computed as in (a) above, reduced by 5/9 of 1% for each of the first sixty months by which commencement of benefits precedes his Normal Retirement Date, and by 5/18 of 1% for each month thereafter, if any, by which commencement of benefits precedes his Normal Retirement Date.

5.05.2 SOCIAL SECURITY OPTION

A Participant who is entitled to receive an Early Retirement Benefit and has elected to have such benefit commence prior to the date he is entitled to receive benefits under Title II of the Social Security Act, may elect to receive a Social Security Option under which he will receive a larger monthly benefit prior to the date he is first entitled to receive benefits under Title II of the Social Security Act and a smaller benefit after he is first entitled to receive benefits under Title II of the Social Security Act so that, to the extent possible, the Participant will receive a level monthly income when his payments under the Plan and his income under Title II of the Social Security Act are taken into account; provided, however, that his payments under the Social Security Option will be the Actuarial Equivalent of the Early Retirement Benefit he would have received if he had not elected such an option.

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

5.06 DEFERRED RETIREMENT BENEFIT

- (a) ***Retirement Prior to Age 70 ¹ / 2***

Each Participant who continues in the employ of the Employer or an Affiliated Employer after attaining his Normal Retirement Age and retires prior to age 70 ¹ / 2 shall be entitled upon actual retirement to receive a monthly Deferred Retirement Benefit. The Deferred Retirement Benefit payable under this paragraph (a) shall be determined in accordance with Section 5.03, 5.03.1, 5.03.2, 5.03.3, 5.03.4, 5.03.5, 5.03.6, 5.03.7, 5.03.8, 5.03.9, 5.04 or 5.04.1, whichever is applicable, based on the Participant's years of Benefit Service (including fractions thereof) as of his retirement date, and the rate of benefit in effect under the Plan on his retirement date.

- (b) ***Commencement of Benefits While Actively Employed***

Prior to January 1, 1997, the Deferred Retirement Benefit payable to a Participant who attains age 70 ¹ / 2 and who continues to be an Employee shall be equal to the Participant's accrued benefit determined as of the last day of the Plan Year in which the Participant attains age 70 ¹ / 2. The Deferred Retirement Benefit payable under this paragraph (b) shall be determined in accordance with Section 5.03 or 5.03.1, 5.03.2, 5.03.3, 5.03.4, 5.03.5, 5.03.6, 5.03.7, 5.03.8, 5.03.9, 5.04 or 5.04.1 whichever is applicable, and shall be payable in the form of a single life annuity. The Deferred Retirement Benefit shall commence no later than the January 1 immediately following the Plan Year in which the Participant attains age 70 ¹ / 2.

The monthly benefit of a Participant who has begun receiving benefits and who continues to be an Employee after his attainment of age 70 ¹ / 2 shall be adjusted, effective on the January 1 following the Plan Year in which the Participant's benefit commenced and on each succeeding January 1 prior to the Participant's Deferred Retirement Date, to reflect the effect of changes in the Participant's accrued benefit since the previous January 1. The final adjustment shall be

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

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

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

Upon such Participant's actual Deferred Retirement Date, he shall then be eligible to make the election as described in Section 5.02.2.

5.07 SUSPENSION OF BENEFIT DISTRIBUTIONS

(a) *Conditions for Suspension*

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

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

(b) *Redetermination of Benefits*

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

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

(c) ***Resumption of Benefits***

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

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

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

(d) ***Notice of Suspension***

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

5.08 RETIREMENT PRIOR TO JANUARY 1, 1985

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

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

Commencing January 1, 1986, the monthly retirement benefit of an active Participant who attained Normal Retirement Age prior to January 1, 1986 or of a Retired Participant who retired prior to January 1, 1986 shall be increased by 2.5% for each year between the date such active Participant attained Normal Retirement Age or the date such Retired Participant retired and the anniversary of such date which occurs in 1986; provided that such increase in the monthly benefit shall not be less than \$10.00.

5.10 TRANSFER ADJUSTMENT TO NORMAL RETIREMENT BENEFIT

Notwithstanding the provisions under Section 5.03, in the event a Participant transfers to another subsidiary or division which provides a different benefit rate under this Plan than provided under the transferor subsidiary or division and such Participant is credited with more than 2080 Hours of Service during the Plan Year of the transfer, such Participant's Normal Retirement Benefit will be adjusted as follows:

- (a) the Participant's fractional year of Benefit Service under each benefit rate will be determined based on total Hours of Service credited for each subsidiary or division;

- (b) the fraction calculated in (a) associated with the subsidiary or division with the smaller benefit rate shall be adjusted to be equal to one minus the fraction in (a) associated with the subsidiary or division with the larger benefit rate; and
- (c) the fractions calculated in (b) will be multiplied by the applicable benefit rate to provide the total benefit earned in the Plan Year of the transfer.

5.11 DISABILITY RETIREMENT BENEFITS

Effective October 1, 2001, in the event a Participant becomes disabled while employed with the Employer, so that he is receiving disability benefits under Title II of the Social Security Act, such Participant shall continue to be credited with years of Service for vesting and years of Benefit Service for the period he remains disabled and such crediting shall cease upon the earlier of the Participant's recovery from disability, death, election of Early Retirement or Normal Retirement Date. If a Participant's disability continues until his Normal retirement Date, his Normal Retirement Benefit shall commence as of the date elected by the Participant in accordance with the normal form of benefit described as Section 5.01 or 5.02, whichever is applicable, or the optional retirement benefit, if elected by the Participant as set forth in Article 5.

5.12 MINIMUM DISTRIBUTION REQUIREMENTS

(a) General Rules

- (i) *Effective Date* . The provisions of this Section 5.12 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.
- (ii) *Precedence* . The requirements of this article will take precedence over any inconsistent provisions of the Plan.
- (iii) *Requirements of Treasury Regulations Incorporated* . All distributions required under this Section 5.12 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code.
- (iv) *TEFRA Section 242(b)(2) Elections* . Notwithstanding the other provisions of this Section 5.12, other than paragraph (a) (iii) above, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242 (b)(2) of the Tax Equity and Fiscal Responsibility Act ("TEFRA") and the provisions of the Plan that relate to Section 242 (b)(2) of TEFRA.

(b) Time and Manner of Distribution

- (i) *Required Beginning Date* . The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.
- (ii) *Death of Participant Before Distributions Begin* . If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:
 - (A) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 ¹ / 2 , if later.
 - (B) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then distributions to the Designated Beneficiary will begin by

December 31 of the calendar year immediately following the calendar year in which the Participant died.

- (C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
- (D) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse begin, this Subsection 5.12(b)(ii), other than Subsection 5.12(b)(ii)(A), will apply as if the surviving Spouse were the Participant.

For purposes of this Subsection 5.12(b)(ii) and Subsection 5.12(e), distributions are considered to begin on the Participant's Required Beginning Date (or, if Subsection 5.12(b)(ii)(D) applies, the date distributions are required to begin to the surviving Spouse under Subsection 5.12(b)(ii)(A). If annuity payments irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the Participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Subsection 5.12(b)(ii)(A), the date distributions are considered to begin is the date distributions actually commence.

- (iii) *Form of Distribution* . Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections (c), (d) and (e) of this Section 5.12. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations. Any part of the Participant's interest which is in the form of an individual account described in Section 414(k) of the Code will be distributed in a manner satisfying the requirements of Section 401(a)(9) of the Code and the Treasury regulations that apply to individual accounts.

(c) **Determination of Amount to be Distributed Each Year**

- (i) *General Annuity Requirements* . If the Participant's interest is paid in the form of annuity distributions under the plan, payments under the annuity will satisfy the following requirements:
 - (A) the annuity distributions will be paid in periodic payments made at intervals not longer than one year;
 - (B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Subsection (d) or (e);
 - (C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted;
 - (D) payments will either be nonincreasing or increase only as follows:
 - (1) by an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics;
 - (2) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit upon death, but only if the Beneficiary whose life was being used to determine the distribution period described in Subsection (d)

dies or is no longer the Participant's Beneficiary pursuant to a Qualified Domestic Relations Order within the meaning of Section 414(p);

- (3) to provide cash refunds of employee contributions upon the Participant's death; or
- (4) to pay increased benefits that result from a Plan amendment.

- (ii) *Amount Required to be Distributed by Required Beginning Date* . The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Subsection 5.12(b)(ii)(A) or (B) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, e.g., bi-monthly, monthly, semi-annually, or annually. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.
- (iii) *Additional Accruals After First Distribution Calendar Year* . Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues.

(d) Requirements For Annuity Distributions That Commence During Participant's Lifetime

- (i) *Joint Life Annuities Where the Beneficiary Is Not the Participant's Spouse* . If the Participant's interest is being distributed in the form of a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the Participant using the table set forth in Q&A-2 of Section 1.401(a)(9)-6T of the Treasury regulations. If the form of distribution combines a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary and a period certain annuity, the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.
- (ii) *Period Certain Annuities* . Unless the Participant's Spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the Benefit Commencement Date. If the Benefit Commencement Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Benefit Commencement Date. If the Participant's Spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Subsection (d)(ii), or the joint life and last survivor expectancy of the Participant and the Participant's Spouse as determined under the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury

regulations, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the calendar year that contains the Benefit Commencement Date.

(e) **Requirements For Minimum Distributions Where Participant Dies Before Date Distributions Begin**

- (i) *Participant Survived by Designated Beneficiary* . If the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Subsection (b)(ii)(A) or (B), over the life of the Designated Beneficiary or over a period certain not exceeding:
 - (A) unless the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death; or
 - (B) if the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year that contains the Benefit Commencement Date.
- (ii) *No Designated Beneficiary* . If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death
- (iii) *Death of Surviving Spouse Before Distributions to Surviving Spouse Begin* . If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Subsection (e) will apply as if the surviving Spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Subsection (b)(ii)(A).

(f) **Definitions**

- (i) *Designated Beneficiary* . The individual who is designated as the Beneficiary under Section 8.05 of Part A of the Plan and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.
- (ii) *Distribution Calendar Year* . A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Subsection (b)(ii).
- (iii) *Life Expectancy* . Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.
- (iv) *Required Beginning Date* . The date described in Section 5.06(b) of the Plan.

ARTICLE 6—TERMINATION OF SERVICE

6.01 REQUIREMENTS FOR VESTED BENEFITS

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

6.02 VESTED BENEFITS

A Participant who completes an Hour of Service on or after January 1, 1989 and who ceases to be an Employee prior to Normal Retirement Age for any reason except death or retirement under the Plan shall be entitled to a deferred vested benefit commencing on his Normal Retirement Date (as defined in Section 4.01) equal to his accrued Normal Retirement Benefit determined in accordance with the provisions of Section 6.02.1 multiplied by his vesting percentage in accordance with the following schedule:

Years of Service	Vesting Percentage
Less than 5 years	0%
5 years or more	100%

6.02.1 COMPUTATION OF A VESTED BENEFIT

The amount of deferred vested benefit payable to a Terminated Participant under Section 6.02 shall be equal to the Normal Retirement Benefit he would be entitled to under Section 5.03, 5.03.1, 5.03.2, 5.03.3, 5.03.4, 5.03.5, 5.03.6, 5.03.7, 5.03.8, 5.03.9, 5.04 or 5.04.1, whichever is applicable, based on his years of Benefit Service (including fractions thereof) and the rate of benefit in effect as of the date he last performs an Hour of Service, as an Eligible Employee

6.02.2 EARLY COMMENCEMENT OF A VESTED BENEFIT

A Terminated Vested Participant entitled to a Vested Benefit under Section 6.02 may elect to have such benefit commence at any time after he is eligible to elect an Early Retirement Date pursuant to Section 4.02. In such case, his benefit shall be the Actuarial Equivalent of the benefit determined under Section 6.02.1.

Effective January 1, 1999 a Terminated Participant entitled to a Vested Benefit under Section 6.02 may elect to have such benefit commence at any time after he reaches his fifty-fifth birthday provided he has completed at least 10 years of Service. Effective with respect to benefits commencing on or after January 1, 1999, such Participant shall be entitled to his benefit payable on his Normal Retirement reduced by 5/9 of 1% for each of the first sixty months by which commencement of benefits precedes his Normal Retirement Date, and by 5/18 of 1% for each month thereafter, if any, by which commencement of benefits precedes his Normal Retirement Date.

ARTICLE 7—DEATH OF PARTICIPANT

7.01 DEATH PRIOR TO RETIREMENT

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

7.02 SURVIVING SPOUSE BENEFIT

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

- (a) He has been legally married to such spouse throughout the twelve-month period ending on the date of his death;
- (b) He has met the requirements for a Vested Benefit under Section 6.02;
- (c) He has not attained Normal Retirement Age; and
- (d) He has not commenced receiving benefits under the Plan.

7.03 AMOUNT OF SURVIVING SPOUSE BENEFIT

If a Participant or Terminated Participant dies after fulfilling all the requirements of Section 7.02, his spouse shall be entitled to a lifetime benefit under the Plan. If the surviving spouse of the Participant or Terminated Participant consents, such benefit shall commence on the first day of the month following the later of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02. If such surviving spouse does not consent to receive benefits as described above, benefits shall commence on the first day of any month thereafter, as elected by the surviving spouse, but not later than the date the Participant or Terminated Participant would have attained age 65.

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

- (a) If the Participant or Terminated Participant dies after meeting the requirements for Early Retirement as provided under Section 4.02, the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the Participant or Terminated Participant had retired on the date preceding his date of death and he had been entitled to a Spouse Joint and Survivor Annuity;
- (b) If the Participant or Terminated Participant dies on or before meeting the requirements for Early Retirement as provided under Section 4.02, the Surviving Spouse Benefit shall be equal to the amount which would have been payable to the spouse if the Participant or Terminated Participant had:
 - (i) terminated service on the date of his death;
 - (ii) survived to the earliest retirement age under Section 4.02;
 - (iii) retired at that time and was entitled to receive a Spouse Joint and Survivor Annuity; and
 - (iv) died on the day following attainment of the earliest retirement age; or

- (c) If the Participant's or Terminated Participant's surviving spouse elects a benefit commencement date other than the first day of the month following the date of the Participant's or Terminated Participant's death or the date the Participant or Terminated Participant would have met the requirements for Early Retirement under Section 4.02, the Surviving Spouse Benefit under (a) or (b) above, whichever is applicable, shall be actuarially adjusted to reflect the actual date of benefit commencement.

7.04 DEATH AFTER COMMENCEMENT OF BENEFITS OR NORMAL RETIREMENT AGE

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

- (a) If a Participant is receiving a Spouse Joint and Survivor Annuity as described in Section 5.02, any benefits becoming due will be paid in accordance with the terms of such Spouse Joint and Survivor Annuity;
- (b) If a Participant has elected an optional benefit under Article 8, any benefits becoming due will be paid in accordance with the terms of such option;
- (c) If a Participant dies after attaining his Normal Retirement Age but before his Deferred Retirement Date, the Spouse Joint and Survivor Annuity as described in Section 5.02 shall be deemed to be in effect on behalf of such Participant, provided he has not made an election under Section 5.02.2 to receive his benefits under another form of payment.

ARTICLE 8—OPTIONAL FORMS OF BENEFIT

8.01 TIME FOR ELECTION

Subject to the restrictions set forth in Section 8.06, in lieu of receiving the life annuity referred to in Section 5.01 or the Spouse Joint and Survivor Annuity referred to in Section 5.02, a Participant may elect, by written application filed with the Committee, to have his retirement benefit paid under one of the forms of benefit set forth in this Article 8, provided that such election is made prior to the earlier of: the Participant's actual retirement under the Plan or the Participant's required beginning date under Section 5.06 and in accordance with the procedures set forth in Section 5.02.4 (if such Participant is married) and in this Article 8. Neither Section 5.01 nor Section 5.02 shall apply if an effective election is made under this Article; provided, however, that a married Participant may, at any time during the election period established by the Committee under Section 5.02.2, rescind his election of an option under this Article 8 and receive his retirement benefit in the form of an annuity for life under Section 5.01 or a Spouse Joint and Survivor Annuity under Section 5.02 if he has met the requirements therefor.

8.02 CONTINGENT ANNUITANT OPTION

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

8.03 TEN YEAR CERTAIN LIFE ANNUITY OPTION

A Participant may elect an option in accordance with Section 5.02, under which option he will receive an actuarially reduced benefit during his lifetime after retirement with a provision that if he dies after his Normal Retirement Age or after his Benefit Commencement Date but prior to receiving one hundred twenty monthly retirement payments, the balance of such one hundred twenty monthly retirement payments shall be paid to the Participant's Beneficiary.

8.04 WHEN OPTION EFFECTIVE

If a Participant who elects an option under this Article 8 dies prior to Normal Retirement Age or prior to his Benefit Commencement Date, if earlier, the election shall be void and no benefit will be paid under the option. If the Participant's Contingent Annuitant, or Beneficiary if applicable, dies prior to the commencement of retirement benefits to the Participant and prior to the Participant's Normal Retirement Age, the Participant may either (a) designate another Contingent Annuitant, or Beneficiary, if applicable, prior to his Normal Retirement Age, (b) receive the form of benefit at retirement which would have been payable to him had the option not been elected, or (c) elect another optional form of benefit under Article 8. Notwithstanding the first sentence of this Section 8.04, if the Participant has elected a Deferred Retirement Date (as defined in Section 4.03), and if the Participant dies after his Normal Retirement Date (as defined in Section 4.01) but before his Deferred Retirement Date, the Contingent Annuitant shall receive the reduced amount of retirement benefit payable under the option. If the Participant has elected a Deferred Retirement Date, and if either the Contingent Annuitant or Beneficiary, if applicable, dies after the Participant's Normal Retirement Date but before his Deferred Retirement Date, the election shall be void and the Participant will receive the benefit which would have been payable to him had the option not been elected, unless another option is elected.

8.05 BENEFICIARY

A Participant who elects an option under Section 8.03 shall designate, on a form provided by the Committee, a Beneficiary or Beneficiaries to receive any death benefit which may become payable under the designated option. The Participant may change his designation of Beneficiary from time to time by written notice filed with the Committee. If no designated Beneficiary survives to receive all benefits which may become due under the Plan, any such benefits becoming due shall be paid to any one or more of the following classes of successive Beneficiaries surviving the Participant: the Participant's (a) spouse, (b) issue, (c) parents, (d) brothers and sisters, or (e) executors and administrators.

8.06 LIMITATION OF ELECTION OF OPTION

No option shall be effective under this Article if the anticipated effect would be to extend the period of payments beyond the joint life expectancy of the Participant and his Contingent Annuitant or Beneficiary; or would violate the minimum distribution incidental benefit requirement of Section 1.401(a)(9)-2 of the proposed regulations, or any provision of future law that amends, supplements, or supersedes such provision.

8.07 SPOUSAL CONSENT REQUIREMENT

Notwithstanding anything herein contained to the contrary, the election by a married Participant of an optional form of benefit shall not take effect unless the requirements set forth in Section 5.02.4 have been satisfied.

ARTICLE 9—CHANGE IN STATUS AND TRANSFER

9.01 CHANGE IN STATUS FROM ELIGIBLE EMPLOYEE TO NON-ELIGIBLE EMPLOYEE

If a Participant is included in this Plan for a part of his period of employment with the Employer or an Affiliated Employer and then loses his status as an Eligible Employee, as defined in this Plan, he will not accrue any further benefits under this Plan; however, all Service with the Employer or an Affiliated Employer will be taken into account in determining his eligibility rights to receive any benefits previously accrued under this Plan.

In the event an Employee loses his status as an Eligible Employee, his benefit shall be determined using the benefit rate in effect on the date he ceases to be an Eligible Employee. If the Employee's status again changes and he becomes an Eligible Employee and a Participant under the Plan, his years of Benefit Service as an Eligible Employee shall be aggregated and his benefit shall be determined using the benefit rate in effect on the latest date on which he ceases to be an Eligible Employee.

9.02 CHANGE IN STATUS FROM NON-ELIGIBLE EMPLOYEE TO ELIGIBLE EMPLOYEE

If a Participant is included in this Plan after a period of Service with the Employer when he was not an Eligible Employee, as defined in this Plan, all his Service with the Employer or an Affiliated Employer will be counted only for purposes of determining his eligibility to participate in the Plan and his rights to receive benefits under this Plan.

9.02.1 NON-DUPLICATION OF BENEFITS

If benefits are payable on account of the same period of employment with the Employer or an Affiliated Employer, under this Plan and another qualified defined benefit plan toward which the Employer contributes (or has contributed), the benefits payable under this Plan on account of such period shall be reduced by the Actuarial Equivalent of any benefit payable to him under such other plan calculated in the same form and manner as is the benefit payable under this Plan on account of the same period of Service. However, if such other Plan provides for a similar reduction of benefits, then this Section shall be disregarded with respect to an Eligible Employee whose most recent period of participation in this Plan is earlier than his most recent period of participation in such other plan.

9.03 TRANSFER IN EMPLOYMENT

For purposes of determining vested benefits and eligibility, a direct transfer in employment between the Employer and a wholly owned subsidiary of the Employer, whether or not it adopts the Plan, shall not be deemed to effect any break in Service as to the Eligible Employee or Participant so transferring, as long as he retains his status as an Eligible Employee with such subsidiary. His Benefit Service with such subsidiary prior to the date of its adoption of the Plan shall be counted for purposes of the Plan to the extent specified in the vote of the board of directors of such subsidiary adopting the Plan. The Eligible Employee or Participant shall not lose his right to any Benefit Service he had accrued with the Employer prior to the date of his transfer in employment to the subsidiary, provided that there shall be no duplication in benefits based on such Benefit Service.

9.03.1 EMPLOYMENT WITH AN AFFILIATED EMPLOYER

For purposes of determining a Participant's eligibility to participate in the Plan and his right to a Vested Benefit under Section 6.02, any employment with an Affiliated Employer shall be treated as Service with the Employer; such Service to be determined by the Committee in accordance with the Service provisions of Article 2 applied in a uniform, nondiscriminatory manner to all Participants and to be based on the employment records of the Affiliated Employer. In no event shall a person who has completed such Service enter the Plan prior to his employment with the Employer or accrue any benefits under the Plan in respect of such Service, except as provided in Section 9.03.

ARTICLE 10—ADMINISTRATION

10.01 ALLOCATION OF RESPONSIBILITY AMONG FIDUCIARIES FOR PLAN AND TRUST ADMINISTRATION

The Fiduciaries shall have only those powers, duties, responsibilities and obligations as are specifically given to them under this Plan or the Trust. Any power, duty, responsibility or obligation relating to the control, management, or administration of the Plan or Trust Fund which is not specifically allocated to any Fiduciary, or with respect to which the allocation is in doubt, shall be deemed allocated to the Employer. In general, the Employer shall have the sole responsibility for making the contributions, as specified in Article 11 and subject to the provisions of Article 11, necessary to provide benefits under the Plan. The Sponsoring Employer by action of its Board shall have the sole authority to appoint and remove the Trustee and the members of the Committee and to amend or terminate, in whole or in part, this Plan and the Trust. The Committee shall have the sole responsibility for the administration of this Plan, as specifically described in this Plan and the Trust. The Trustee shall have the sole responsibility for the administration of the Trust and the management of the Trust assets, except as otherwise specifically provided in this Plan and the Trust.

The Sponsoring Employer, by written instrument filed with the records of the Plan, may designate fiduciary capacities and/or Fiduciaries other than those named herein. A Fiduciary may serve in more than one fiduciary capacity in respect to the Plan. A Fiduciary shall have the authority to delegate responsibilities, as provided above, and may employ one or more parties to render advice with regard to any responsibility he has under the Plan.

10.02 INDEMNIFICATION

The Employer shall indemnify each member (and former member) of the Committee and any other employee, officer or director (and former employee, officer or director) of the Employer against any claims, loss, damage, expense and liability (other than amounts paid in settlement not approved by the Employer) reasonably incurred by him in connection with any action or failure to act to which he may be party by reason of his membership on the Committee or performance of an authorized duty or responsibility for or on behalf of the Employer pursuant to the Plan or Trust unless the same is determined to be the result of the individual's gross negligence or willful misconduct. Such indemnification by the Employer shall be made only to the extent (a) such expense or liability is not payable to or on behalf of such person under liability insurance coverage; and (b) the Trust is precluded from assuming such expense or liability because of the operations of ERISA Section 410 or other applicable law. The foregoing right to indemnification shall be in addition to any other rights to which any such person may be entitled as a matter of law.

10.03 APPOINTMENT OF COMMITTEE

The Plan shall be administered by a Committee consisting of at least three (3) persons who shall be appointed by and serve at the pleasure of the Board. A person who is selected as a member of the Committee also may serve in one or more other fiduciary capacities with respect to the Plan and may be a Participant. The Board shall have the right to remove any member of the Committee at any time, and a member may resign at any time by written resignation to the Board. The Board may fill by appointment any vacancy in the membership of the Committee. All usual and reasonable expenses of the Committee incurred by them in the administration of the Plan and Trust, including but not limited to fees and expenses of professional advisors referred to above, shall be paid by the Trust Fund unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any

such expenses. Any members of the Committee who are full-time employees of the Employer shall not receive compensation with respect to their services as a member of the Committee.

10.04 RECORDS AND REPORTS

The Committee shall exercise such authority and responsibility as it deems appropriate in order to comply with the Code, ERISA, and governmental regulations issued thereunder relating to records of Participants, Service and Benefit Service, benefits, notifications to Participants, annual registration with the Internal Revenue Service, and annual reports to the Department of Labor. The Employer and the Committee shall each keep or cause to be kept such Employee and Participant data and other records, and shall each reasonably give notice to the other of such information, as shall be proper, necessary or desirable to effectuate the purpose of the Plan. Neither the Employer nor the Committee shall be required to duplicate any records kept by the other.

10.05 OTHER COMMITTEE POWERS AND DUTIES

The Committee shall have such duties and powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following:

- (a) To construe and interpret the Plan, including the supplying of any omissions in accordance with the intent of the Plan, decide all questions of eligibility, determine the amount, manner and time of payment of any benefits hereunder, and to authorize the payment of benefits;
- (b) To prescribe forms and procedures to be followed by the Participants, spouses, and Beneficiaries filing applications for benefits;
- (c) To prepare and distribute, in such manner as the Committee determines to be appropriate, information explaining the Plan;
- (d) To receive from the Employer and from Participants such information as shall be necessary for the proper administration of the Plan;
- (e) To furnish the Employer, upon request, such annual reports with respect to the administration of the Plan as are reasonable and appropriate;
- (f) To receive, review and keep on file (as it may deem convenient or proper) reports of the financial condition, and of the receipts and disbursements, of the Trust Fund from the Trustee;
- (g) To appoint, employ or designate individuals to assist in the administration of the Plan and any other agents it deems advisable, including legal and actuarial counsel;
- (h) To make such equitable and practical adjustments as may be necessary to correct mistakes of fact or other errors; and
- (i) To authorize amendments of the Plan by a Company officer, provided such amendments are of a non-substantive nature and do not significantly increase the cost of the Plan; and
- (j) To exercise such other powers and duties as the Board may delegate to it.

The Committee may retain auditors, accountants, physicians, actuaries, legal counsel and other professional advisors selected by it. The opinion of, or information and data contained in any certificate or report or other material prepared by any such auditor, physician, actuary, accountant, legal counsel, or other professional advisors shall be full and complete authority and protection in respect of any action taken, suffered or omitted by the Committee or other Fiduciary in good faith

and in accordance with such opinion or information and no member of the Committee or other Fiduciary shall be deemed imprudent by reason of any such action.

10.06 RULES AND DECISIONS

The Committee may adopt such rules as it deems necessary, desirable or appropriate for the proper and efficient administration of the Plan and as are consistent with the provisions of the Plan. Rules and decisions of the Committee shall not discriminate in favor of officers, directors, or Highly Compensated Employees of the Employer. When making a determination or calculation, the Committee shall be entitled to rely upon information furnished by a Participant, spouse, Contingent Annuitant or Beneficiary, the Employer, the legal counsel of the Employer, an Actuary, consultant, or the Trustee. The Committee shall have and shall exercise complete discretionary authority to construe, interpret and apply all of the terms of the Plan, including all matters relating to eligibility for benefits, amount, time or form of benefits, and any disputed or allegedly doubtful Plan terms. Any such construction, administration, interpretation or application shall be final, binding and conclusive upon all persons including, but not by way of limitation, Employees, Participants, spouses, Contingent Annuitants, Beneficiaries, and their heirs, and personal representatives, and any other person claiming an interest under the Plan and shall not be deemed imprudent. In exercising such discretion, the Committee shall give controlling weight to the intent of the Plan.

10.07 COMMITTEE PROCEDURES

The Committee may act at a meeting or in writing without a meeting. All decisions of the Committee shall be made by the vote of the majority including actions in writing taken without a meeting. The Committee may adopt such operating procedures and regulations as it deems desirable for the conduct of its affairs and may authorize a member, or each member, of the Committee to act on its behalf in certain administrative matters deemed by them to be routine in nature, including the execution of documents. No Committee member who is a Participant shall have any vote in any decision of the Committee made uniquely with respect to such Committee member or his benefits hereunder.

10.08 AUTHORIZATION OF BENEFIT PAYMENTS

The Committee shall issue directions to the Trustee concerning all benefits which are to be paid from the Trust Fund pursuant to the provisions of the Plan, and certify that all such directions are in accordance with the Plan.

10.09 APPLICATION AND FORMS FOR PAYMENT

The Committee shall require a Participant to complete and file with the Committee an application for distribution of benefits and all other forms approved by the Committee for the purpose and to furnish all pertinent information requested by the Committee. The Committee may rely upon all such information furnished to it, including the Participant's current mailing address. To the extent that the Committee shall prescribe forms for use by the Participants, former Participants, and their respective spouses, Contingent Annuitants, or Beneficiaries in communicating with the Employer or the Committee, as the case may be, and shall establish periods during which communications may be received, they and the Employer shall respectively be protected in disregarding any notice or communication for which a form shall so have been prescribed and which shall not be made on such form and any notice or communication for the receipt of which a period shall so have been established and which shall not be received during such period, or in accepting any notice or

communication which shall not be made on the proper form and/or received during the proper period. The Employer and the Committee shall respectively also be protected in acting upon any notice or other communication purporting to be signed by any person and reasonably believed to be genuine and accurate, and shall not be deemed imprudent by reason of so doing.

10.10 PROCEDURE FOR CLAIMING BENEFITS UNDER THE PLAN

- (a) Claims for benefits under the Plan made by a Participant or Beneficiary covered by the Plan must be submitted in writing to the Committee. Approved claims will be processed and instructions issued to the Trustee authorizing payments as claimed.

If a claim is denied in whole or in part, the Committee shall notify the claimant of its decision by written notice, in a manner calculated to be understood by the claimant. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary;
- (iv) an explanation of the Plan's claim review procedure; and
- (v) a statement of the claimant's right to bring a civil action in accordance with section 502(a) of ERISA if the claimant's claim is denied upon review.

Such notification shall be given within 90 days after the claim is received by the Committee. This period may be extended for another 90 days if the claimant is notified that the extension is necessary due to matters beyond the control of the Plan, before the end of the original 90-day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

- (b) Upon denial of a claim in whole or in part, a claimant or his duly authorized representative shall have the right to submit a written request to the Committee for a full and fair review of the denied claim, to submit written comments, documents, records, and other information relating to the claim, and to be provided, upon request and free of charge, access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits. A request for review of a claim must be submitted within 60 days of receipt by the claimant of written notice of the denial of the claim.

The Committee shall advise the claimant of the results of the review within 60 days after receipt of the written request for review. This period may be extended for another 60 days if the Committee determines that special circumstances require an extension of time for processing the request and if written notice of such extension and circumstances is given to such claimant within the initial 60 day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

In the event an appeal is denied, the claimant will be notified in writing. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a statement of the claimant's right to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and

(iv) a statement of the claimant's right to bring a civil action in accordance with Section 502(a) of ERISA.

The decision of the Committee by majority vote shall be final and binding upon any and all claimants, including but not limited to Participants and their Beneficiaries, and any other individuals making a claim through or under them.

10.11 APPEAL AND REVIEW PROCEDURE

If a claim has been denied by the reviewing Committee member, the claimant may appeal the denial within sixty (60) days after his receipt of written notice thereof by submitting in writing to the Committee a request for review of the denial of such claim. A claimant may also submit a written statement of issues and comments concerning his claim, and he may request an opportunity to review the Plan, the Trust and any other pertinent documents (which shall be made available to him by the Committee within thirty (30) days after its receipt of a copy of the request) at a convenient location during regular business hours.

If an appeal is made, the Committee shall render its final decision with the specific reasons therefor in writing and transmit it to the claimant by certified mail within 60 days of its receipt of the request for review (or within 120 days in the event a hearing is granted).

All interpretations, determinations, and decisions of the Committee or its designated representative with respect to any matter herein will be final, conclusive, and binding upon all interested parties.

10.12 EVIDENCE

Evidence required of anyone under the Plan may be given by certificate, affidavit, document or in such other form as the person to whom such evidence is given considers appropriate.

ARTICLE 11—FUNDING OF THE PLAN

11.01 MEDIUM OF FUNDING

The Plan will be funded through one or more Trust Funds established by the Employer.

11.02 CONTRIBUTIONS

The Employer shall make such contributions to the Trust Fund from time to time as may be necessary to maintain the Plan on a sound actuarial basis and meet the funding requirements of the ERISA. In determining such contributions, the earnings of the Trust Fund and any amounts forfeited by Terminated Participants shall be considered as a part of the Trust Fund in establishing the cost of maintaining the Plan.

11.03 FUND TO BE FOR THE EXCLUSIVE BENEFIT OF PARTICIPANTS

The contributions made to the Trust Fund by the Employer under the Plan shall be for the exclusive benefit of Participants, Retired Participants, and Terminated Participants, and no part of the Trust Fund shall revert to the Employer, except such amounts as may remain after the satisfaction of all liabilities to Participants, Retired Participants, Terminated Participants, surviving spouses, Contingent Annuitants, and Beneficiaries upon termination of the Plan.

11.04 FORFEITURES

All amounts forfeited by Terminated Participants shall be used to reduce the Employer's cost of the Plan, and shall not be used to increase the benefits of other Participants under the Plan.

11.05 INTERESTS OF PARTICIPANTS IN TRUST FUND

No Participant shall have any right, title or interest in any part of the assets of any Trust Fund except as and to the extent expressly provided by the Plan.

11.06 PAYMENT OF EXPENSES

It is intended that the administrative and all other expenses of the Plan shall be paid by the Trust Fund, unless such expenses are paid by the Employer. All or part of such expenses may be paid by the Employer, but the Employer shall be under no obligation to pay any such expenses.

ARTICLE 12—PAYMENT OF RETIREMENT BENEFITS

12.01 PAYMENT OF SMALL AMOUNTS

- (a) Effective for distributions determined on or after March 28, 2005, if the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse under the Plan does not exceed \$1,000 on the date of distribution or does not exceed \$5,000 as of a distribution date on or after the Participant's Normal Retirement Date, such amount shall be automatically paid to the Participant or surviving spouse in a lump sum.

Distribution shall be made as soon as practicable after the Participant's termination of employment or death.

- (b) Effective for distributions determined on and after March 28, 2005, if the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse under the Plan exceeds \$1,000 but is not in excess of \$5,000 as of the date of distribution prior to the Participant's Normal Retirement Date, the Participant or surviving spouse may elect in writing, on a form provided by the Committee, to receive the distribution in a lump sum at any time prior to the Participant's Normal Retirement Date. If the Participant or surviving spouse does not make a timely election, the lump sum option under this Section 12.01(b) will be available at the Participant's or surviving spouse's election prior to the Participant's Normal Retirement Date only if the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse is not in excess of \$5,000 as of any subsequent distribution date. If the Actuarial Equivalent of the accrued benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse exceeds \$5,000, then the provisions of this Section 12.01(b) shall not apply.
- (c) Payment of such small amounts shall be in final satisfaction of any rights with respect to a Participant's benefits under the Plan. No distribution shall be made under this Section 12.01 after a Participant's benefit commencement date, unless the Participant and the Participant's spouse, or where the Participant has died, the surviving spouse consents in writing to such distribution.
- (d) For purposes of this Section, the accrued benefit payable to the Participant or the death benefit payable to a Participant's surviving spouse shall also include any amounts payable under the Plan that are not attributable to this Part A of the Plan.

12.02 DEEMED DISTRIBUTION

If the Actuarial Equivalent of the vested portion of a Participant's accrued benefit is zero, the Participant shall be deemed to have received a single sum distribution of the vested portion of his accrued benefit on his date of termination of employment and the nonvested portion of his accrued benefit shall thereupon be forfeited. If such Participant resumes employment covered under the Plan before the date he incurs a break in Service on or after January 1, 1985 which equals or exceeds the greater of five years or the number of years of Service which the Employee completed prior to the break in Service, the nonvested portion of the accrued benefit forfeited pursuant to this Section 12.02 shall be restored on the Participant's date of employment.

12.03 PAYMENTS FOR INCAPACITATED PERSONS

Whenever, in the Committee's opinion, a person entitled to receive any payment of a benefit, or installment thereof, hereunder is under a legal disability or is incapacitated in any way so as to be

unable to manage his financial affairs, the Committee may direct the Trustee to make payments to the legal representative of such person. Any payment of a benefit or installment thereof in accordance with the provisions of this Section shall be a complete discharge of any liability for the making of such payment under the provisions of the Plan.

If any Beneficiary of any Participant or former Participant shall be a minor, the Trustee shall be fully protected in making any payment required to be made to such minor to any person who shall be a custodian or guardian for such minor.

12.04 SPENDTHRIFT

Except as provided in Section 12.05, no benefit payable at any time under the Plan shall be subject in any manner to alienation, anticipation, sale, transfer, assignment, pledge, attachment or encumbrance of any kind. No benefit and no Trust Fund established in connection with the Plan shall in any manner be subject to the debts or liabilities of any person entitled to such benefit. Effective August 5, 1997, the Plan shall recognize judgements or settlements described in Sections 401(a)(13)(C) and (D) of the Code.

12.05 PAYMENT UNDER QUALIFIED DOMESTIC RELATIONS ORDERS

Notwithstanding any provision of the Plan to the contrary, if there is entered any qualified domestic relations order (within the meaning of Section 414(p) of the Code and ERISA Section 206(d)(3)(B), as added by the Retirement Equity Act of 1984) that affects the payment of benefits hereunder, such benefits shall be paid in accordance with the applicable requirements of such order.

12.06 LATEST COMMENCEMENT OF BENEFITS

- (a) In no case, unless the Participant otherwise elects in accordance with Section 401(a)(14) of the Code and the Treasury Regulations promulgated thereunder, will the payment of benefits to any Participant commence later than the 60th day after the latest of the following: (i) the close of the Plan Year of the Participant's Normal Retirement Date (as defined in Section 4.01); (ii) the close of the Plan Year in which occurs the tenth anniversary of the year in which the Participant commenced participation in the Plan; or (iii) the close of the Plan Year in which the Participant terminates his service with the Employer and all Affiliated Employers.
- (b) Notwithstanding the foregoing, benefits from the Plan shall begin no later than the required beginning dates described in Section 5.06.

12.07 COMMENCEMENT OF BENEFITS PRIOR TO NORMAL RETIREMENT AGE

Notwithstanding anything herein to the contrary, except as provided in Section 12.01, no benefit shall commence to the Participant or the Participant's spouse prior to the date the Participant attains or would have attained his Normal Retirement Age without the consent of the Participant and the Participant's spouse, if required by applicable law. Such consent must be obtained not more than 90 days prior to the Benefit Commencement Date.

12.08 DISTRIBUTION OF BENEFITS BEGINNING BEFORE DEATH AND AFTER DEATH

- (a) ***Distribution Beginning Before Death*** . If distribution to the Participant has begun and the Participant dies before his entire Vested Benefit has been distributed, the remaining portion of

such Vested Benefit shall be distributed to his Beneficiary or Contingent Annuitant, as least as rapidly as under the method of payment in effect at the Participant's date of death.

- (b) ***Distribution Beginning After Death*** . If the Participant dies before commencement of his Vested Benefit, distribution of the Participant's entire Vested Benefit shall be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death, except that:
- (i) if the Participant's designated Beneficiary is an individual other than the Participant's spouse, the Participant's interest may be distributed over the life expectancy of his Beneficiary, beginning on or before December 31 of the calendar year immediately following the calendar year in which the Participant died; and
 - (ii) if the Participant's designated Beneficiary is his spouse, the Participant's interest may be distributed over the life expectancy of his spouse, beginning on or before the later of:
 - (A) December 31 of the calendar year next following the calendar year in which the Participant died; or
 - (B) December 31 of the calendar year in which the Participant would have attained age 70 ¹ / 2 .

12.09 DISTRIBUTION LIMITATIONS

- (a) For purposes of this Section 12.09, the following terms shall have the indicated meaning:
- (i) **"Benefits"** means the sum of the Participant's accrued benefit and all other benefits to which he is entitled under the Plan, but excluding any death benefit provided for by insurance on the Participant's life.
 - (ii) **"Restricted Participant"** means, with respect to a Plan Year, a Highly Compensated Employee who is a Participant and who, if there are more than 25 Highly Compensated Employees, is one of the 25 Highly Compensated Employees with the highest Total Annual Pay, as defined in subparagraph (iii) below.

An individual who is a Restricted Participant in a Plan Year shall be a Restricted Participant in a subsequent Plan Year only if he satisfies the conditions of the previous sentence in such subsequent Plan Year.

If more than one individual has the same Total Annual Pay, the younger individual shall be deemed to have the higher Total Annual Pay.

- (iii) **"Total Annual Pay"** means, with respect to any Plan Year:
 - (A) In the case of a Highly Compensated Employee who is not currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation (as defined in Section 5.04(c)) for the Plan Year in which he ceased to be employed by the Employer or an Affiliated Employer, or his Section 415 Compensation for the Plan Year immediately preceding that Plan Year, and
 - (B) In the case of a Highly Compensated Employee who is currently employed by the Employer or an Affiliated Employer, the greater of his Section 415 Compensation for the Plan Year in question or for the prior Plan Year.
- (b) Subject to paragraph (c) below, a Restricted Participant may not receive his Benefits under this Plan in the form of a single lump sum payment, or other benefit form under which payments during a single year would exceed the annual payments that would be made on

behalf of such Participant under a single life annuity that is the Actuarial Equivalent of his benefits (other than the benefits described in paragraph (c)(iii) below).

- (c) The limitation of paragraph (b) above shall not apply:
 - (i) to any payment, if the value of Plan assets after such payment equals or exceeds 110% of the value of the Plan's "current liabilities" (within the meaning of Section 412(1)(7) of the Code); or
 - (ii) if the value of the Restricted Participant's Benefit is less than 1% of the value of such current liabilities, or
 - (iii) to payment of benefits attributable to transferred balances from defined contribution plans or to employee contributions.
- (d) In the event that Congress provides by statute, or the Internal Revenue Service provides by regulation or ruling, that the limitations set forth in this Section 12.09 are not necessary for the Plan to meet the requirements of Section 401(a) or other applicable provisions of the Code then in effect, such limitations shall become void and shall no longer apply without the necessity of further amendment to the Plan.
- (e) Notwithstanding the foregoing, the limitations of paragraph (b) above shall not apply to any Restricted Participant otherwise subject thereto who enters into a prior written agreement with the Committee to the effect that if the Plan is terminated and distribution of benefits has been or will be made to such Participant regardless of the limitation of paragraph (b) above, such Participant (or, in the case of his death, his estate or representatives) shall repay to the Trustee a sum equal to the total amounts by which his benefits under the Plan shall exceed benefits determined under the preceding limitation ("Restricted Benefits").

12.10 DIRECT ROLLOVER DISTRIBUTIONS

Notwithstanding any provision of the Plan to the contrary, if any distribution to a Distributee (i) is made on or after January 1, 1993, (ii) totals \$200 or more, and (iii) constitutes an Eligible Rollover Distribution, the Distributee may elect on a form provided by the Committee to have all or part of such Eligible Rollover Distribution paid in a direct rollover to an Eligible Retirement Plan selected by the Distributee. For this purpose, a Distributee, an Eligible Rollover Distribution, and an Eligible Retirement Plan shall be defined as follows:

- (a) Distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving spouse and the Employee's or former Employee's spouse or former spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the spouse or former spouse.
- (b) Eligible Rollover Distribution means any distribution of all or any portion of the balance to the credit of a Distributee, except that an Eligible Rollover Distribution does not include any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includable in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

Effective for distributions after December 31, 2001,

- (1) an Eligible Rollover Distribution does not include any hardship distribution, and
 - (2) a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.
- (c) Eligible Retirement Plan means a plan described below:
- (i) an individual retirement account described in Section 408(a) of the Code;
 - (ii) an individual retirement annuity (other than an endowment contract) described in Section 408(b) of the Code;
 - (iii) with respect to Participants and Distributees who are alternate payees only, a qualified defined contribution plan and exempt trust described in Sections 401(a) and 501(a) of the Code respectively, the terms of which permit the acceptance of rollover contributions; or
 - (iv) with respect to Participants and Distributees who are alternate payees only, an annuity plan described in Section 403(a) of the Code.

If an election is made to have only a part of an eligible rollover distribution paid in a direct rollover, the amount of the direct rollover must total \$500 or more.

Direct rollovers shall be accomplished in accordance with procedures established by the Committee.

Effective for distributions after December 31, 2001, an Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by an eligible employer described in Section 457(e)(1)(A) of the Code.

The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p).

ARTICLE 13—AMENDMENTS TO OR TERMINATION OF THE PLAN

13.01 RIGHTS OF THE EMPLOYER TO AMEND OR TERMINATE

- (a) While it is the intention of the Sponsoring Employer to continue the Plan indefinitely, the Sponsoring Employer reserves the right to modify, amend or terminate the Plan in whole or in part at any time by an instrument in writing pursuant to authority of a vote of the Board of Directors; provided, however, that the Plan shall not be amended in such manner as would cause or permit any part of the Trust to be diverted for purposes other than for the exclusive benefit of Participants, Retired Participants, and Terminated Participants; decrease a Participant's accrued benefit or eliminate an optional form of payment with respect to benefits accrued as of the later of the (a) the date such amendment is adopted, or (b) the date the amendment becomes effective; or to revert to or become the property of the Employer, prior to the satisfaction of all liabilities under the Plan with respect to Participants, Retired

- (b) If any Plan amendment changes the vesting schedule set forth in Section 6.02, each Participant who has completed at least three (3) years of Service on the effective date of the change in the vesting schedule shall have his vesting percentage computed in accordance with the vesting schedule which produces the highest vested benefit.

13.02 TERMINATION OF THE PLAN

Upon termination of the Plan due to any reason, or partial termination in accordance with the regulations of the Treasury Department, the rights of all non-vested Participants affected by such termination to benefits accrued prior to the date of such termination shall be nonforfeitable. The assets of the Plan shall thereupon be allocated in accordance with the provisions of Sections 13.03 and 13.04. No Participant or any other person shall have the right to seek payment of benefits directly from the Sponsoring Employer or Employer and all persons shall look solely to the Trust Fund for payment of benefits. Such payments shall be made only to the extent that the funds held in the Trust are sufficient therefor, except as may be otherwise guaranteed by the Pension Benefit Guaranty Corporation.

Upon termination of the Plan, benefits of missing participants shall be treated in accordance with Section 4050 of ERISA.

13.03 LIMITATIONS ON BENEFITS UPON TERMINATION

The allocation of the amounts in Section 13.04 shall be based on the actuarial value of the benefit payable under the Plan at Normal Retirement Age as a life annuity, without death benefit, not in excess of the lesser of:

- (a) 100% of the Participant's monthly compensation averaged over the five consecutive years in which his compensation was the highest; or
- (b) such amount as determined according to the regulations of the Pension Benefit Guaranty Corporation. Such amount shall be subject to adjustment each year to reflect changes in the Social Security contribution and benefit base, any such adjustments shall be in accordance with regulations issued by the Pension Benefit Guaranty Corporation.

13.04 ALLOCATION OF ASSETS

After providing for the expenses incurred in terminating the Plan, the assets shall be used and applied for the benefit of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries), Participants, and Terminated Participants who at the date of retirement or termination of employment may have been entitled to retirement benefits, to be allocated in the following order:

- (a) **First** : Assets shall be allocated to provide pensions for life, on the basis of the Plan provisions in effect at the beginning of the five-year period ending on the date of Plan termination, to Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) who have been receiving benefits for three years prior to the date of termination and Participants and Terminated Participants who have met the requirements for normal or early retirement benefit at least three years prior to the date of termination.

- (b) **Second** : If any assets remain after allocation for the purposes of paragraph (a), they shall be allocated to provide a benefit for life, on the basis of the Plan provisions in effect five years prior to the date of Plan termination, to all other Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries receiving benefits) and all other Participants and Terminated Participants who are not included in paragraph (a) and who have met the requirements for Normal or Early Retirement or for a Vested Benefit under Article 6 at the date of termination.
- (c) **Third** : If any assets remain after allocation for the purposes of paragraphs (a), and (b), they shall be allocated to provide the benefit, if any, in excess of the benefit provided by the allocations under paragraphs (a), and (b) necessary to bring the benefits of Retired Participants (including surviving spouses, Contingent Annuitants, and Beneficiaries) and all Participants and Terminated Participants who have met the requirements for Normal or Early Retirement or a Vested Benefit under Article 6 at the date of Plan termination up to the full amount of the accrued retirement benefit provided under the Plan as of the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.
- (d) **Fourth** : If any assets remain after allocation for the purposes of paragraphs (a), (b), and (c), they shall be allocated to provide benefits to all other Participants of the Plan on the date of Plan termination, such benefits to be determined without regard to the maximum benefit stated in Section 13.03.
- (e) **Fifth** : If any assets remain after the complete allocation for the foregoing purposes of this Article 13, they shall be returned to the Employer.

If the allocable assets are insufficient to provide in full for the allocations under any of the foregoing paragraphs after the provision for all allocations under previous paragraphs, each allocation under such paragraph as to which assets are insufficient shall be reduced pro-rata.

No allocations will be made under the foregoing Section with respect to any benefits accrued under the Plan after the Secretary of the Treasury has issued notice that the Plan does not meet the requirements of Section 401(a) of the Code.

13.05 DISTRIBUTION MEDIA

The allocations for which provision is made in this Article 13 may be accomplished through:

- (a) group contracts or individual annuity contracts; or
- (b) cash; or
- (c) any combination of the foregoing.

14.01 TOP HEAVY PROVISIONS

(a) For purposes of this Section, the following terms shall have the meanings indicated below:

(i) "Aggregation Group" means either:

- (A) A "**Permissive Aggregation Group**". The Committee may also include any other qualified plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Sections 401(a)(4) and 410 of the Code. Such group shall be known as a Permissive Aggregation Group.
- (B) A "**Required Aggregation Group**". In determining a Required Aggregation Group hereunder, each qualified plan of the Employer or an Affiliated Employer in which a Key Employee participates and each other plan of the Employer or an Affiliated Employer, including terminated plans maintained within the one-year period ending on the Determination Date, which enables any plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) or 410 of the Code will be required to be aggregated. Such group shall be known as a Required Aggregation Group. Notwithstanding the foregoing, the Required Aggregation Group will not include "safe harbor" plans described in Section 401(k)(12) and 401(m)(11) of the Code.

Solely for purposes of determining if the Plan or any other qualified plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits of Non Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or Affiliated Employers or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

In no event shall this Plan be considered a top heavy plan if it is part of a Required Aggregation Group or a Permissive Aggregation Group that is not a top heavy group.

Only those plans of the Employer or Affiliated Employers in which the determination dates fall within the same calendar year shall be aggregated in order to determine whether such plans are top heavy plans.

- (ii) "**Determination Date**" means the last day of the preceding Plan Year, except that for the first Plan Year the Determination Date is the last day of that Plan Year.
- (iii) "**Employee**", "**Former Employee**", "**Key Employee**" and "**Non Key Employee**" shall also include Beneficiaries of such an employee.
- (iv) "**Key Employee**" means any employee or former employee (including any deceased employee) of the Employer or an Affiliated Employer who at any time during the Plan Year containing the Determination Date for the Plan Year in question is:
 - (A) An officer of the Employer or Affiliated Employer, if such individual received Section 415 Compensation of more than \$130,000 as adjusted. No more than 50 employees (or, if lesser, the greater of 3 employees or 10% of the employees) shall be treated as officers (exclusive of employees described in Section 414(q)(8) of the Code).

- (B) A 5% owner of the Employer or an Affiliated Employer. A "5% owner" means a person owning (or considered as owning, within the meaning of Section 318 of the Code) more than 5% of the outstanding stock of the Employer or an Affiliated Employer, or stock possessing more than 5% of the total combined voting power of all stock of the Employer or an Affiliated Employer (or having more than 5% of the capital or profits interest in any Employer or Affiliated Employer that is not a corporation determined under similar principles).
- (C) A 1% owner of the Employer or an Affiliated Employer having Section 415 Compensation of more than \$150,000. A "1% owner" means any person who would be described in paragraph (a)(iv)(B) above if "1%" were substituted for "5%" in each place where it appears in paragraph (a)(iv)(B).

A Key Employee shall be determined in accordance with the provisions of Section 416(i) of the Code.

- (v) **"Non Key Employee"** means an employee who is not a Key Employee, including any employee who is a former Key Employee.
- (vi) **"Valuation Date"** means the date used to calculate the value of accrued benefits or account balances for purposes of determining the top heavy ratio specified in paragraph (b) below.

For purposes of this Plan, the Valuation Date shall be the valuation date used for computing the Plan's minimum funding requirements under Section 412 of the Code. For each other plan, the Valuation Date shall be, subject to Section 416 of the Code, the most recent Valuation Date which falls within or ends within the twelve consecutive months ending on the applicable determination date for such plan.

(b) **Top Heavy Plan**

The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

- (i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the one-year period ending on the Determination Date (in the case of any distribution made for a reason other than separation from service, death or disability, the five-year period ending on the Determination Date) shall be taken into consideration.
- (ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the one-year period ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such one-year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall have credited to his defined contribution plan account a minimum Employer contribution equal to the minimum contribution provided by such defined contribution plan; however, in no event shall the minimum Employer contribution be less than 5% of such Participant's Section 415 Compensation. No Minimum Benefit shall accrue under this Plan.

- (iii) If an Employee is a Non Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.
- (iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Non Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.
- (v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.
- (vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.01(a) of part A.
- (vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.
- (viii) "Deductible employee contributions" (within the meaning of Section 501(c)(18)(D) of the Code) contributed to any plan in the Aggregation Group shall not be taken into consideration.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

- (c) Notwithstanding any other provision of the Plan to the contrary, for any Plan Year in which the Plan is deemed to be a top heavy plan, the following provisions shall apply:

- (i) **Minimum Vesting**

Any Participant who completes an Hour of Service in a Plan Year in which the Plan is deemed to be a top heavy plan shall have a nonforfeitable interest in a percentage of his or her Accrued Benefit determined by multiplying the Accrued Benefit by the applicable percentage from the following schedule:

Years of Vesting Service	Vested Percentage
Less than 3 years	0%
3 or more years	100%

Furthermore, if the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule.

The provisions of this paragraph (c)(i) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of the Plan.

(ii) **Minimum Benefit**

Each Participant who is a Non-Key Employee shall have an Accrued Benefit calculated as of the last day of the top heavy Plan Year or, if earlier, as of his or her Severance from Service Date occurring during such Plan Year, at least equal to the product of (A) 2% of his or her Section 415 Compensation (as defined in Section 415(c) of the Code) from an Employer or Affiliated Employer during the five consecutive years for which the Participant had the highest Compensation, and (B) his or her years of Benefit Service up to a maximum of ten years. For purposes of this paragraph (ii), years of Benefit Service shall not include Plan Years during which the Plan is not a top heavy plan nor a Plan Year in which no Key or former Key Employee benefits under the Plan. For purposes of this Plan, the minimum annual retirement benefit means a benefit payable annually in the form of a single life annuity (with no ancillary benefits) beginning at a Participant's Normal Retirement Date.

If a Non-Key Employee participates in a defined contribution plan included in the Aggregation Group, the minimum benefit shall be provided under this Subsection (ii).

- (iii) In any Plan Year that the Plan ceases to be top heavy, the above provisions shall no longer apply, except that the portion of a Participant's Accrued Benefit which was vested pursuant to paragraph (i) above shall remain vested.

ARTICLE 15—MISCELLANEOUS

15.01 RIGHTS AGAINST THE EMPLOYER

Neither the establishment of the Plan, nor the Trust Fund, nor any modification thereof, nor the payment of benefits hereunder shall be construed as giving any Employee or Participant the right to be retained in the service of the Employer or as interfering with the right of the Employer to discharge any Employee at any time.

15.02 RETURN OF CONTRIBUTIONS

- (a) In the event that the Commissioner of Internal Revenue (or his or her delegate) determines that the Plan is not initially qualified under the Code, any Employer contributions made to the Plan shall be returned to the Employer within one year after the date the initial qualification is denied, provided application for qualification is made by the time prescribed by law for filing the Employer's return for the fiscal year in which the Plan is adopted, or such later date as the Secretary of the Treasury may prescribe.
- (b) Nothing herein shall prohibit a return to the Employer, within one year after payment, of excess sums contributed to the Trust Fund as a result of a mistake of fact.
- (c) Each Employer contribution is specifically conditioned on the deductibility of the contribution under Section 404 of the Code, and to the extent such contribution, or any part thereof, is disallowed, the contribution, or any part thereof that is disallowed, shall be returned to the Employer within one year after the date of disallowance.
- (d) The return of a contribution to the Employer pursuant to paragraph (b) or (c) above shall be permitted hereunder only if the amount so returned (i) is the excess of the amount actually contributed over the amount which would have otherwise been contributed, (ii) does not include the earnings attributable to such contribution and (iii) is reduced by any losses attributable to such contribution.

15.03 MERGER

Unless otherwise permitted by law or regulations, the Plan shall not be merged into, or consolidated with, nor shall any assets or liabilities be transferred to, any other pension or retirement plan under circumstances resulting in a transfer of assets or liabilities from the Plan to such other plan unless immediately after any such merger, consolidation or transfer each Employee would if such other plan then terminated, receive a benefit which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer, if the Plan had then terminated.

15.04 LEASED EMPLOYEES

For purposes of the Plan, the term "leased employee" means any person who would not otherwise be considered an Employee but who, pursuant to an agreement between the Employer or an Affiliated Employer and a leasing organization (within the meaning of Section 414 (n)(2) of the Code) has performed services for the Employer or Affiliated Employer on a substantially full time basis for a period of at least one year, and such services are performed under the primary direction and control of the Employer or Affiliated Employer. Contributions or benefits provided a leased employee by the leasing organization which are attributable to services performed for the Employer or Affiliated Employer shall be treated as provided by the Employer or Affiliated Employer.

A leased employee shall not be considered an Employee if:

- (a) Such individual is covered by a money purchase pension plan providing (i) a nonintegrated employer contribution rate of at least ten percent of his "Section 415 Compensation" (as defined in Section 5.04(c)), but including amounts contributed pursuant to a salary reduction agreement which are not includable in gross income under Section 125, 402(a)(8), 402(h), or 403(b) of the Code, (ii) immediate participation, and (iii) full and immediate vesting; and
- (b) leased employees constitute twenty percent or less of the Employer's or Affiliated Employer's nonhighly compensated workforce (within the meaning of Section 414(n)(5)(C)(ii) of the Code).

15.05 APPLICABLE LAW

The provisions of this Plan shall be governed and construed in accordance with the laws of the Commonwealth of Massachusetts.

15.06 HEADINGS

The headings of the Plan are inserted for convenience of reference only, and shall have no effect upon the meaning of the provisions hereof.

15.07 GENDER AND NUMBER

Wherever used in this instrument, a masculine person shall be deemed to include the masculine and feminine gender, and a singular word shall be deemed to include the singular and plural, in all cases where the context requires.

APPENDIX A

PRIOR BENEFIT RATES

The following is a listing of the Benefit Rates in effect under the Watts Industries, Inc. Hourly Pension Plan prior to January 1, 1997

Entity	Last Hour of Service		Benefit Rate
	On or After	But Before	
Circle Seal Controls, Inc.	9/7/1990	1/1/1997	\$ 15.00
Regtrol, Inc.	1/1/1985	7/1/1988	\$ 5.50
	7/1/1988	1/1/1989	\$ 7.00
	1/1/1989	1/1/1991	\$ 8.00
	1/1/1991	1/1/1997	\$ 11.00
Webster Valve Division	1/1/1985	1/1/1988	\$ 6.50
	1/1/1988	7/1/1988	\$ 8.50
	7/1/1988	1/1/1989	\$ 10.00
	1/1/1989	1/1/1991	\$ 11.00
	1/1/1991	1/1/1997	\$ 12.50
Leslie Controls, Inc.	1/1/1989	1/1/1997	\$ 13.00
Webster Foundry Division	1/1/1985	1/1/1988	\$ 6.50
	1/1/1988	7/1/1988	\$ 8.50
	7/1/1988	1/1/1989	\$ 10.00
	1/1/1989	1/1/1991	\$ 11.00
	1/1/1991	1/1/1997	\$ 12.50
KF Industries, Inc.	1/1/1989	1/1/1991	\$ 8.00
	1/1/1991	1/1/1993	\$ 10.00
	1/1/1993	1/1/1997	\$ 12.00
Rudolph LaBranche, Inc.	1/1/1989	1/1/1991	\$ 11.00
	1/1/1991	1/1/1997	\$ 12.50
Watts Automatic Control Valve, Inc.	1/1/1989	1/1/1991	\$ 8.00
	1/1/1991	1/1/1997	\$ 10.00
Eagle Valve Company, Inc.	1/1/1991	1/1/1997	\$ 10.00
Contromatics, Inc.	1/1/1993	1/1/1997	\$ 12.50

PART B

WATTS WATER TECHNOLOGIES, INC. PENSION PLAN

JAMECO INDUSTRIES, INC. PENSION PLAN

STATEMENT OF PURPOSE

Jameco Industries, Inc. has had in effect since December 1, 1963 the Jamaica Manufacturing Co., Inc. Employees Pension Plan, to which it made contributions for providing benefits for its eligible employees and their beneficiaries, in the manner and to the extent set forth in such plan.

The Jamaica Manufacturing Co., Inc. Pension Plan (As Amended 1969) and its related amended trust agreement constituted an amendment in its entirety to the Jamaica Manufacturing Co., Inc. Employees Pension Plan.

Effective October 1, 1969, the name of the Jamaica Manufacturing Co., Inc. Pension Plan (As Amended 1969) was changed to Jameco Industries, Inc. Pension Plan (As Amended 1969).

The plan was amended in its entirety again in 1976, 1982, 1984, and 1989.

Effective October 1, 1995, the Plan was merged into the Watts Industries, Inc. Retirement Plan for Salaried Employees, now called the Watts Water Technologies, Inc. Pension Plan (Watts Pension Plan) and the Plan's terms were incorporated and made a part of the Watts Pension Plan as this Part B.

This Part B was restated effective January 1, 1997 and such later dates as may be specified herein to comply with the General Agreement on Tariffs and Trade, the Uniformed Services Employment and Reemployment Rights Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, the Internal Revenue Service Restructuring and Reform Act of 1998, and other applicable laws.

The Plan has been amended since January 1, 1997.

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ARTICLE I

DEFINITIONS

- 1.01 "Accrued Benefit"** on behalf of any Participant shall be equal to the benefit calculated at any point in time and payable at Normal Retirement Date determined pursuant to Section 5.01.
- 1.02 "Actuarial Equivalent"** or any term of similar import, wherever used in the Plan, means a benefit of equivalent value determined as follows:
- (a) For purposes of any determination requiring actuarial equivalence under Article 15:
 - (1) For determination dates occurring prior to the Plan Year beginning January 1, 2006, the Actuarial Equivalent will be determined using a 5% interest rate and the UP-1984 Mortality Table;
 - (2) For determination dates occurring beginning on or after January 1, 2006, the Actuarial Equivalent will be determined using a 5% interest rate and the mortality table prescribed in Revenue Ruling 2001-62.
 - (b) For purposes of Section 9.04, 9.05, and for any lump sum distribution date occurring on or after January 1, 2003, Actuarial Equivalent will be determined by using the mortality table defined in Code Section 417(e)(3)(A)(ii)(I), and using an interest rate equal to the rate defined in Section 417(e)(3)(A)(ii)(II) for the month of November immediately preceding the Plan Year of the distribution date. For purposes of this subsection, the term "distribution date" means the date as of which an amount is paid.
 - (c) For purposes of Section 12.02 of Part B, the Actuarial Equivalent will be determined as specified in regulations promulgated by the Pension Benefit Guaranty Corporation.
 - (d) For all other purposes, the Actuarial Equivalent will be determined using a 6% interest rate and the mortality table prescribed in Revenue Ruling 2001-62. Notwithstanding the foregoing,
 - (i) If any benefit, other than the Disability benefit calculated in accordance with Section 9.06(b), is payable to a Participant eligible for Disability Retirement or Early Retirement before such Participant's Normal Retirement Date, the Participant's Accrued Benefit will be reduced by five-ninths percent ($\frac{5}{9}\%$) for each of the first sixty (60) months and five-eighteenths percent ($\frac{5}{18}\%$) for each of the next sixty (60) months by which the commencement of benefits precedes the Participant's Normal Retirement Date. If any Disability benefit calculated in accordance with Section 9.06(b) is to commence before age 55, the Accrued Benefit will be additionally reduced by a five percent (5%) annual discount factor, charged monthly.
 - (ii) If any benefit determined as of or after a Participant's Normal Retirement Date is payable at a later date, it shall be increased at the rate of eight percent (8%) per year, compounded annually, with respect to the period commencement is deferred.
- 1.03 "Affiliated Employer"** means any corporation which is a member of a controlled group of corporations (as defined in Code Section 414(b)) which includes the Employer; any trade or business (whether or not incorporated) which is under common control (as defined in Code Section 414(c)) with the Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Code Section 414(m)) which includes the Employer; any other entity required to be aggregated with the Employer pursuant to Regulations under Code Section 414(o).
- 1.04 "Annuity Starting Date"** means the first day of the first period for which an amount is payable as an annuity or in the case of a benefit not payable in the form of an annuity, the first day on which all events have occurred which entitle the Participant to such benefit.

- 1.05 "Average Monthly Compensation"** means 1/12th of the annual Compensation of a Participant averaged over the five (5) consecutive completed calendar years, including periods prior to the Effective Date of the Plan, which produce the highest monthly average within the last ten (10) completed years of participation. If a Participant has less than five (5) consecutive completed calendar years from his date of participation to his date of termination, his Average Monthly Compensation will be based on his Compensation from his date of employment to his date of termination or during the actual period of his service if less. Compensation before the calendar year preceding the date on which a Participant first satisfies the Plan's age, Service and/or Hours of Service requirements in accordance with Section 2.01, in effect as of his date of participation, shall not be included in determining Average Monthly Compensation.
- 1.06 "Beneficiary"** means the person designated to receive benefits which are payable under the Plan upon or after the death of a Participant.
- 1.07 "Board"** means the Board of Directors of Jameco Industries, Inc. as from time to time constituted.
- 1.08**
- (a) **"Break in Service"** means the applicable Computation Period of twelve (12) consecutive months during which an Employee fails to accrue a Month of Service. Further, solely for the purpose of determining whether a Participant has incurred a 1-Year Break in Service, Hours of Service shall be recognized for "authorized leaves of absence" and "maternity and paternity leaves of absence." Years of Service and 1-Year Breaks in Service shall be measured on the same Computation Period. An Employee shall not be deemed to have incurred a 1-Year Break in Service if he completes an Hour of Service within twelve (12) months following the last day of the month during which his employment terminated.
 - (b) **"Authorized Leave of Absence"** means an unpaid, temporary cessation from active employment with the Employer pursuant to an established nondiscriminatory policy, whether occasioned by illness, or any other reason.
 - (c) **"Maternity or Paternity Leave of Absence"** means, for Plan Years beginning after December 31, 1984, an absence from work for any period by reason of the Employee's pregnancy, birth of the Employee's child, placement of a child with the Employee in connection with the adoption of such child, or any absence for the purpose of caring for such child for a period immediately following such birth or placement. For this purpose, Hours of Service shall be credited for the twelve (12) month period of absence from work, only if credit therefore is necessary to prevent the Employee from incurring a 1-Year Break in Service.
- 1.09 "Break-in-Service Year"** means a year which interrupts the continuous accrual of Service or Credited Service.
- 1.10 "Code"** means Internal Revenue Code of 1986, as amended.
- 1.11 "Committee"** means the Administrative Committee appointed to administer the Plan in accordance with Article XI hereof.
- 1.12 "Compensation"** means a Participant's wages paid for the calendar year, as defined in Code Section 3401(a) for purposes of income tax withholding at the source, but determined without regard to any rules limiting the remuneration included in wages based on the nature or location of the employment or the services performed (such as the exception for agricultural labor in Code Section 3401(a)(2)).

For purposes of this Section, the determination of Compensation shall be made by including salary reduction contributions made on behalf of an Employee to a plan maintained under Code Section 125 or Section 401(k)(2). Compensation shall be limited by the dollar amount set forth in Section 401(a)(17) of the Code as adjusted by the Commissioner for increases in the cost of living

in accordance with Section 401(a)(17)(B) of the Internal Revenue Code. The cost-of living adjustment in effect for a calendar year applies to any period, not exceeding 12 months, over which Compensation is determined (determination period) beginning in such calendar year. If a determination period consists of fewer than 12 months, Compensation limit will be multiplied by a fraction, the numerator of which is the number of months in the determination period and the denominator of which is 12.

Solely for purposes of determining if this Plan complies with the nondiscrimination and coverage requirements of Code Sections 401(a)(4) and 410(b), Compensation shall include all amounts imputed during a period of absence from Service on account of disability or leave of absence. Such imputed Compensation shall be credited for either six months or the duration of the absence, whichever is shorter; except, if the absence is for military duty or jury duty, Compensation will be credited for the entire period of absence. Determination of the amount of imputed Compensation will be based on Compensation reasonably representative of what that Participant would have received during the period if the Participant had continued to perform services.

For purposes of this definition of Compensation, contributions pursuant to a cafeteria plan established under Section 125 of the Code shall include any amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as a contribution under Section 125 of the Code only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

Notwithstanding any provision of the Plan the contrary, in no event shall a Participant's Compensation taken into account under the Plan for any Plan Year beginning on or after January 1, 2002 exceed the applicable limit specified in Code Section 401(a)(17)(A) for any Plan Year. This dollar limit on Compensation shall be adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment shall apply only to Compensation taken into account for Plan Years beginning with the Plan Year in which such increase is effective.

For purposes of determining benefit accruals in Plan Years beginning after December 31, 2001 for Participants who earn an Hour of Service after December 31, 2001, Compensation for any prior Plan Year shall be limited to \$200,000.

- 1.13 "Computation Period"** means, for eligibility purposes, the period described in Section 2.05. For all other purposes, "Computation Period" means the twelve (12) month period beginning as of the first day of the month of employment and each anniversary thereof.
- 1.14 "Contingent Annuitant"** means a person designated under an option of Article VI or Article VII hereof to receive a retirement allowance during his or her lifetime after the death of an Employee.
- 1.15 "Contributions"** means the payments to the Fund by the Employer which are provided for herein.
- 1.16 "Covered Compensation"** for a Participant means the average (without indexing) of the taxable wage bases in effect for each calendar year during the 35-year period ending with the last day of the calendar year in which the Participant attains (or will attain) social security retirement age. No increase in Covered Compensation shall decrease a Participant's Accrued Benefit under the Plan. In determining a Participant's Covered Compensation for a Plan Year, the taxable wage base for all calendar years beginning after the first day of the Plan Year is assumed to be the same as the taxable wage base in effect as of the beginning of the Plan Year. A Participant's Covered Compensation for a Plan Year before the 35-year period ending with the last day of the calendar year in which the Participant attains social security retirement age is the taxable wage base in effect as of the beginning of the Plan Year. A Participant's Covered Compensation for a Plan Year after such 35-year period is the Participant's. Covered Compensation for the Plan Year during

which the 35-year period ends. For purposes of determining benefits under the Plan, Covered Compensation will be determined using the Covered Compensation table as in effect for the Plan Year in which such determination is being made.

- 1.17 "Credited Service"** means the period of employment of the Participant used to accumulate benefits under the Plan as set forth in Article III hereof. Credited Service will be determined on the basis of elapsed time.
- 1.18 "Delayed Retirement Date"** means the date set forth in Article IV.
- 1.19 "Disability"** means a physical or mental condition of a Participant resulting from bodily injury, disease, or mental disorder which renders him incapable of continuing any gainful occupation and which condition constitutes total disability under the federal Social Security Act.
- The Employer shall have the right to require the Participant to submit reasonable proof of such Disability. Such proof may include a requirement that the Participant submit to a medical examination from time to time by a qualified physician or physicians selected by the Employer. Medical examinations shall not be required more frequently than semiannually.
- 1.20 "Disability Retirement Date"** means the date set forth in Article IV.
- 1.21 "Early Retirement Date"** means the date set forth in Article IV.
- 1.22 "Effective Date"** means December 1, 1963. The provisions of this amended and restated Plan shall be effective as of October 1, 1989.
- 1.23 "Eligible Employee"** means an Employee described in Section 2.02.
- 1.24 "Employee"** means any person employed by the Employer. The term "Employee" shall also include any leased employee deemed to be an Employee of the Employer, as provided in Code Sections 414(n) or (o), unless:
- (a) such individual is covered by a money purchase pension plan providing (A) a nonintegrated employer contribution rate of at least ten percent (10%) of compensation, as defined in Section 415(c)(3) of the Code, but including amounts contributed by the employer pursuant to a salary reduction agreement which are excludable from the Leased Employee's gross income under Section 125, 401 (a)(8), 402(h) or 403(b) of the Code; (B) immediate participation; and (C) full and immediate vesting and
 - (b) leased employees do not constitute more than twenty percent (20%) of the Employer's Nonhighly Compensated Employee workforce.
- 1.25 "Employer"** means Jameco Industries, Inc. (Watts Industries, Inc. effective October 1, 1995) and any successor which shall maintain this Plan; and any other business entity which duly adopts the Plan with the approval of the Board of Directors.
- 1.26 "Employment Commencement Date"** means the date on which an Employee first is credited with an Hour of Service.
- 1.27 "Entry Date"** means the date defined in Section 2.01 of the Plan.
- 1.28 "Fiduciary"** means any Trustee, Plan Administrator and any other person who:
- (a) Exercises any discretionary authority or discretionary control respecting management of the Plan or exercises any authority or control respecting management or disposition of its assets;
 - (b) Has any discretionary authority or discretionary responsibility in the administration of the Plan; or

- (c) Is described as a "fiduciary" in Section 3(14) or (21) of ERISA or is designated to carry out fiduciary responsibilities pursuant to this Agreement to the extent permitted by Section 405(c)(1)(B) of ERISA.

1.29 "Fund" means the funds and other assets held and administered by the Trustee in accordance with the terms of the Trust Agreement.

1.30 "Highly Compensated Employee " means any active Employee who performed services for the Employer or an Affiliated Employer during the Determination Year and who:

- (a) was a 5% owner (within the meaning of Section 416(i)(1)(B)(i) of the Code at any time during the Determination Year or the Look-Back Year; or
- (b) received compensation from the Employer or an Affiliated Employer in excess of \$80,000 (as adjusted pursuant to 415(d) of the Code) during the Look-Back Year, and was among the to 20% of Employees when ranked on the basis of compensation paid during the Look-Back Year.

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

For purposes of determining an Employee's compensation under this Section 1.30, compensation shall mean the "Employee's Compensation" (as defined in Section 5.04(d)) reportable on Form W-2, plus all contributions made on behalf of the Employee by the Employer or an Affiliated Employer pursuant to a salary deferral agreement maintained by the Employer or an Affiliated Employer under any cash or deferred arrangement described in Section 401(k) of the Code or any salary reduction agreement pursuant to a cafeteria plan established under Section 125 of the Code by the Employer or Affiliated Employer, effective January 1, 2001, any amounts deferred under Section 132(f)(4) of the Code.

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

1.31 (a) "Hour of Service" means:

- (i) Each hour for which an Employee is paid, or entitled to payment, for the performance of duties for the Employer. These hours will be credited to the Employee for the Computation Period in which the duties are performed; and
- (ii) Each hour for which an Employee is paid, or entitled to payment, by the Employer on account of a period of time during which no duties are performed (irrespective of whether the employment relationship has terminated) due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, military duty or leave of absence. Hours under this paragraph will be calculated and credited pursuant to Section 2530.200b-2 of the Department of Labor Regulations which is incorporated herein by this reference; and
- (iii) Each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by the Employer. The same Hours of Service will not be credited both under paragraph (a) or paragraph (b) as the case may be, and under this paragraph (c). These hours will be credited to the Employee for the Computation Period or Periods to which

the award or agreement pertains rather than the Computation Period in which the award, agreement or payment is made.

- (b) Solely for purposes of determining whether a Break in Service, for eligibility and vesting purposes has occurred in a Computation Period, an individual who is absent from work for an authorized leave of absence or for a maternity or paternity leave of absence shall receive credit for the Hours of Service which would otherwise have been credited to such individual but for such absence. For purposes of this paragraph, an absence from work for maternity or paternity leave of absence means an absence (1) by reason of the pregnancy of the individual, (2) by reason of a birth of a child of the individual, (3) by reason of the placement of a child with the individual in connection with the adoption of such child by such individual, or (4) for purposes of caring for such child for a period beginning immediately following such birth or placement. The Hours of Service credited under this paragraph shall be credited (1) in the Computation Period in which the absence begins if the crediting is necessary to prevent a Break in Service in that period, or (2) in all other cases, in the following Computation Period.

- 1.32 "Insurer"** means any legal reserve life insurance company as elected by the Committee which shall issue one or more insurance contracts under the Plan.
- 1.33 "Key Employee"** means any Employee or former Employee (and the Beneficiaries of such Employee) who at any time during the determination period was an officer of the employer if such individual's annual Compensation exceeds fifty percent (50%) of the dollar limitation under Section 415(b)(1)(A) of the Code, an owner (or considered an owner under Section 318 of the Code) of one of the ten largest interests in the Employer if such individual's Compensation exceeds one hundred percent (100%) of the dollar limitation under Section 415(c)(1)(A) of the Code, a 5-percent owner of the Employer, or a 1-percent owner of the Employer who has an annual Compensation of more than \$150,000. Annual Compensation means Compensation as defined in Section 415(c)(3) of the Code, but including amounts contributed by the Employer pursuant to a salary reduction agreement which are excludable from the Employee's gross income under Section 125, Section 402(a)(8), Section 402(h) or Section 403(b) of the Code. The determination period is the Plan Year containing the determination date and the four (4) preceding Plan Years. The determination of who is a Key Employee will be made in accordance with Section 416(i)(1) of the Code and the regulations thereunder.
- 1.34 "Month of Service"** for purposes of eligibility, vesting and benefit accrual means a calendar month any part of which is in a period of employment or credited absence.
- 1.35 "Non-Highly Compensated Employees"** means all Employees who are not Highly Compensated Employees and shall be construed in accordance with the provisions of Code Section 414(q) and the regulations thereunder.
- 1.36 "Non-Key Employees"** means any Employee or former Employee (and any Beneficiary of an Employee or former Employee) who is not a Key Employee.
- 1.37 "Normal Form of Retirement Benefits"** means a pension payable for life beginning as of the Participant's retirement date or, if later, the income commencement date, but in the event of the Participant's death, before receiving one hundred twenty (120) monthly payments, his pension continues to his Beneficiary until the balance of the one hundred twenty (120) monthly payments has been paid.
- 1.38 "Normal Retirement Age"** means the date on which a Participant attains age sixty-five (65), or, if later, the fifth anniversary of the date the Employee became a Participant.
- 1.39 "Normal Retirement Date"** is the date described in Plan Section 4.01.

- 1.40 "Participant"** means any Eligible Employee who participates in the Plan as provided in Article II and any other Employee or former Employee having a right or contingent right to benefits hereunder. "Active Participant" means an Eligible Employee who participates in the Plan and has not for any reason become ineligible to participate further in the Plan.
- 1.41 "Period of Service"** means a period of service of an Employee commencing on his Employment Commencement Date or Reemployment Commencement Date, whichever is applicable, and ending on his Severance From Service Date.
- 1.42 "Period of Severance"** means the period of time commencing on the Severance From Service Date of an Employee and ending on the Reemployment Commencement Date.
- 1.43 "Plan"** means the Jameco Industries, Inc. Pension Plan established by the Employer as contained herein and wherever necessary or appropriate, includes the Plan as it was previously constituted prior to this amendment.
- 1.44 "Plan Sponsor"** prior to October 1, 1995 means Jameco Industries, Inc.
- 1.45 "Plan Year"** means each twelve (12) consecutive month period commencing with each October 1 and each anniversary thereafter.
- 1.46 "Qualified Domestic Relations Order"** means a domestic relations order as defined in Section 14.18 in accordance with Section 414(p) of the Code.
- 1.47 "Reemployment Commencement Date"** means the first date, following a Period of Severance on which the Employee performs an Hour of Service.
- 1.48 "Service"** means the period of employment required for eligibility and vesting under the Plan, determined as set forth in Articles II and III hereof. Service will be determined on the basis of elapsed time.
- 1.49 "Severance From Service Date"** means the date on which the continuous accrual of Service and Credited Service is interrupted, as set forth in Article III hereof.
- 1.50 "Spouse"** means the person to whom the Participant has been legally married as of the Participant's death or Annuity Starting Date, whichever is earlier. The term "spouse" will also include a surviving spouse of the Participant, provided that a former spouse will be treated as the spouse or surviving spouse and a current spouse will not be treated as the spouse or surviving spouse to the extent provided under a qualified domestic relations order as described in Section 4.14(p) of the Code.
- 1.51 "Trust"** means a trust established by the Employer in accordance with Article X hereof.
- 1.52 "Trust Agreement"** means an agreement made between the Employer and the Trustee in Accordance with Article X hereof.
- 1.53 "Trustee"** means a trustee or trustees of the Fund selected as provided in Article X hereof, including any successor trustee or trustees.
- 1.54 "Year of Service"** for purposes of vesting and Credited Service means twelve (12) Months of Service. For this purpose, if an Employee works one (1) Hour of Service during a day, he will be credited with one (1) day of Service.

ARTICLE II

ELIGIBILITY

2.01 *Conditions Of Eligibility*

- (a) Prior to October 1, 1995, any Employee who was a Participant in the Plan prior to the effective date of this amendment and restatement shall continue to participate in the Plan. Any other Eligible Employee shall participate in the Plan as of the Entry Date next succeeding completion of six (6) Months of Service and the attainment of age twenty and one-half ($20\frac{1}{2}$), provided such Employee completes one thousand (1,000) Hours of Service with the Employer during any applicable Computation Period. If an Employee has not satisfied the one thousand (1,000) Hours of Service eligibility requirement when otherwise eligible, he shall become a Participant as of the Entry Date next following the applicable Computation Period during which he first completes one thousand (1,000) Hours of Service with the Employer.
- (b) Entry Date means the April 1 or October 1 next following the date an Eligible Employee satisfies the eligibility requirements of Section 2.01(a) of the Plan.
- (c) Effective October 1, 1995, no new Participants shall be admitted to participation under this Part B.

2.02 *Eligible Employee*

"Eligible Employee" means any Employee except Employees whose employment is governed by the terms of a collective bargaining agreement between Employee representatives (within the meaning of Code Section 7701(1)(46)) and the Employer under which retirement benefits were the subject of good faith bargaining between the parties, unless such agreement expressly provides for such coverage in this Plan, will not be eligible to participate in this Plan.

Employees of Affiliated Employers shall not be eligible to participate in this Plan unless such Affiliated Employers have specifically adopted this Plan in writing.

2.03 *Determination Of Eligibility*

The Committee shall determine the eligibility of each Employee for participation in the Plan based upon information furnished by the Employer. Such determination shall be conclusive and binding upon all persons, as long as the same is made pursuant to this Article II.

2.04 *Termination Of Eligibility*

- (a) In the event a Participant shall go from a classification of an Eligible Employee to an ineligible Employee, such Participant shall continue to vest in his Accrued Benefit under the Plan for each Year of Service completed while a noneligible Employee, until such time as his Accrued Benefit shall be forfeited or distributed pursuant to the terms of the Plan.
- (b) In the event a Participant is no longer a member of an eligible class of Employees and becomes ineligible to participate but has not incurred a 1-Year Break in Service, such Employee will participate again immediately upon returning to an eligible class of Employees. If such Participant incurs a 1-Year Break in Service, eligibility will be determined under the break in service rules of this Article II.
- (c) In the event an Employee who is not a member of an eligible class of Employees becomes a member of an eligible class, such Employee will participate immediately if such Employee has

satisfied the minimum age and service requirements and would have otherwise previously become a Participant.

2.05 *Determination of Service and Break in Service for Eligibility*

- (a) Years of Service for eligibility shall be determined based on the eligibility Computation Period. The initial eligibility Computation Period shall be the 12-month period beginning on the participant's date of hire. The succeeding 12-consecutive month periods commence with the first Plan Year which commences prior to the first anniversary of the Employee's employment commencement date. Employment with an Affiliated Employer shall be recognized as employment with the Employer for purposes of determining Service for eligibility under the Plan.
- (b) All Years of Service with the Employer and Affiliated Employers shall be recognized for purposes of determining eligibility hereunder except the following:

In the case of a Participant who does not have any nonforfeitable right to his Accrued Benefit, Years of Service before a period of consecutive 1-year Breaks in Service will not be taken into account in computing eligibility service if the number of consecutive 1-year Breaks in Service in such period equals or exceeds the greater of five (5) or the aggregate number of Years of Service. Such aggregate number of Years of Service will not include any Years of Service disregarded under the preceding sentence by reason of prior Breaks in Service.

If a Participant's Years of Service are disregarded pursuant to the preceding paragraph, such Participant will be treated as a new Employee for eligibility purposes. If a Participant's Years of Service may not be disregarded pursuant to the preceding paragraph, such Participant shall continue to participate in the Plan, or, if terminated, shall participate immediately upon reemployment.

Such Year of Service will be measured by the 12-month period beginning on an Employee's reemployment commencement date and, if necessary, Plan Years beginning with the Plan Year which includes the first anniversary of the reemployment commencement date. The reemployment commencement date is the first day on which the Employee is credited with an Hour of Service for the performance of duties after the first eligibility Computation Period in which the Employee incurs a 1-year Break in Service.

- (c) A Participant who terminates service and subsequently returns to service as an Eligible Employee shall participate immediately upon reemployment or again becoming an Eligible Employee.

ARTICLE III

SERVICE, CREDITED SERVICE AND BREAKS IN SERVICE FOR VESTING AND BENEFIT ACCRUAL

3.01 *Service For Eligibility*

Service for purposes of eligibility to participate is described in Article II of the Plan.

3.02 *Vesting Service*

The Service of an Employee shall be the aggregate of his Periods of Service, as of the date benefits are to be determined under any of the provisions of the Plan. Periods of Service shall be expressed in terms of years and months and, in determining the total aggregate years, any fraction in excess of complete years shall be determined on the basis of the number of remaining Months of Service. Employment with an Affiliated Employer shall be recognized as employment with the Employer for purposes of determining Service for vesting and eligibility under the Plan.

3.03 *Severance From Service Date*

A Severance From Service Date shall be deemed to occur on the earlier of: (a) the date on which the Employee quits, retires, is discharged or dies; or (b) the first anniversary of the first date of a period in which the Employee remains absent from service (with or without pay) with the Employer for any reason other than quit, retirement, discharge or death.

3.04 *Additional Service Allowance*

If an Employee performs an Hour of Service within twelve (12) months of the Severance From Service Date, the Period of Severance shall be included as a Period of Service for purposes of determining years of Service under any of the provisions of the Plan.

3.05 *Credited Service*

"Credited Service" of a Participant, as of the date the benefits are to be determined under the Plan, shall include all Periods of Service with the Employer. Service performed for Continental Brass Products, Corp., Universal Plumbing Sales Corp., Jamaica Manufacturing Co., Inc., Lipmans Imports, Inc. or Jamaica International, Inc. shall be counted as Credited Service for purposes of the Plan.

3.06 *Service In The Armed Forces*

Any Employee who left active employment of the Employer to enter the Armed Forces of the United States, and whose reemployment rights are protected by Federal law, shall receive the Service and Credited Service for the period of his Military Service, that he would have earned had he instead continued his prior employment with the Employer, provided that the Employee returns to work in compliance with any requirements of such law.

3.07 *Military Service*

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

3.08 *Pre-ERISA Service*

Prior to October 1, 1976, the uninterrupted period of employment with the Employer and with Continental Brass Products, Corp., Universal Plumbing Sales Corp., Jamaica Manufacturing Co., Inc., Lipmans Imports, Inc. or Jamaica International, Inc. as determined under the provisions of the Plan in effect before such date shall be counted for Service and Credited Service under the Plan.

ARTICLE IV

RETIREMENT CONDITIONS

4.01 *Normal Retirement*

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

4.02 *Delayed Retirement*

If a Participant shall remain in employment beyond his Normal Retirement Date, his Delayed Retirement Date shall be the first day of the month coinciding with or next following the date such Participant notifies the Employer that his retirement is to be effective. A Participant who remains in employment beyond his Normal Retirement Date shall be deemed to have retired on the first day of the first month in which he completes less than forty (40) Hours of Service.

4.03 *Early Retirement*

- (a) A Participant may retire from the employment of the Employer prior to his Normal Retirement Date on his Early Retirement Date, which is the first day of any month coinciding with or following the date he both attains the age of sixty (60) and completes twenty-five (25) Years of Service and elects to retire. A Participant may further elect to have his retirement benefit commence on his Early Retirement Date or may irrevocably elect to defer commencement of his benefit to his Normal Retirement Date.
- (b) If a Participant separates from service before satisfying the age requirement for early retirement, but has satisfied the service requirement, the Participant will be entitled to elect commencement of his retirement benefit upon satisfaction of such age requirement.

4.04 *Disability Retirement*

Upon demonstration of a Participant's Disability, the Participant shall automatically become fully vested and be eligible for disability retirement under Section 9.06.

4.05 *Special Rules Upon Disability Retirement*

- (a) As a condition of his continuing to receive Disability retirement income, the Committee shall have the right to require a Participant to provide such evidence as it considers appropriate for verifying his continued eligibility for disability insurance benefit payments under the Social Security Act.
- (b) The Committee shall require evidence that the application for such benefits has been approved by the Social Security Administrator. The final determination shall be made by the Committee on the basis of such evidence.
- (c) Upon the cessation of the Participant's Disability, he shall not be entitled to further benefits as the result of such Disability and he shall only be entitled to such other benefits as may be provided under the terms of the Plan for which he was eligible as of his Disability Retirement Date reduced in accordance with Section 14.14. If such Participant is reemployed by the Employer following the cessation of his Disability, he shall resume the classification of an Eligible Employee and future benefits payable on his subsequent termination of employment will be reduced in accordance with Section 14.14. The Participant shall remain 100% vested in

the Accrued Benefit determined as of his Disability Retirement Date, but his vested interest with respect to additional accruals will be determined in accordance with Article IX.

- (d) If a Participant eligible for Disability Retirement is eligible for Early Retirement, he may, in lieu of the Disability Retirement benefit payable under this Section, elect to receive the benefit applicable under Section 9.02 or the Early Retirement benefit.

4.06 Continuation of Benefits upon Reemployment

If, after a Participant begins receiving benefits under this Plan, he then re-enters employment hereunder, his monthly benefit payments shall continue unreduced. Upon subsequent termination of employment, his benefit amount shall be recalculated on the basis of his Average Monthly Compensation determined as of his subsequent retirement date and his Credited Service earned prior and subsequent to his re-employment hereunder, reduced by the actuarial value of the payments previously made, but in no event less than the benefit amount paid prior to his reemployment.

4.07 Commencement Of Benefits

Unless the Participant elects otherwise, distribution of benefits will begin no later than the 60th day after the latest of the close of the Plan Year in which:

- (a) the Participant attains age sixty-five (65) (or Normal Retirement Age, if earlier);
- (b) occurs the tenth (10th) anniversary of the year in which the Participant commenced participation in the Plan; or
- (c) the Participant terminates service with the Employer.

Notwithstanding the foregoing, the failure of a Participant and Spouse to consent to a distribution while a benefit is immediately distributable, within the meaning of Section 9.05 of the Plan, shall be deemed to be an election to defer commencement of payment of any benefit sufficient to satisfy this Section.

ARTICLE V

RETIREMENT BENEFITS

5.01 *Normal Retirement Benefit*

- (a) Upon retirement at his Normal Retirement Date, a Participant shall receive a monthly retirement benefit which shall commence on such date and which shall be payable under the Normal Form of Retirement Benefit defined in Section 1.37 of the Plan. The amount of each such monthly retirement benefit shall be equal to the sum of (i) plus (ii) as follows:
 - (i) .375% of Average Monthly Compensation for each year of Credited Service,
 - (ii) .25% of Average Monthly Compensation in excess of Covered Compensation for each year of Credited Service.
- (b) A Participant who remains in employment after his Normal Retirement Date may elect to commence payment of his retirement benefit during employment on the first day of any month coincident with or following his Normal Retirement Date. The amount of such monthly retirement benefit shall be determined in the same manner as for retirement at Normal Retirement Date except that Years of Credited Service and Average Monthly Compensation shall be determined as of the date of his actual retirement. However, the benefit described in the preceding sentence shall be recalculated as of the first payment date each year thereafter to reflect changes in Credited Service and Average Monthly Compensation. In no event shall the retirement benefit payable be less than the benefit being paid prior to such recalculations. Solely for purposes of Article VI, upon such commencement of his retirement benefit, he shall be treated as a retired Participant.

5.02 *Delayed Retirement Benefit*

If a Participant does not retire on his Normal Retirement Date and does not elect to commence his benefits while employed, the Committee shall establish an account and maintain a separate accounting in the name of the Participant as of the first day of the Plan Year following the Plan Year in which the Participant's Normal Retirement Date occurred. The Participant's account value as of such date shall be the Actuarial Equivalent of the Participant's Normal Form of Retirement Income as of such date.

- (a) All such accounts shall be invested either (i) as part of the Trust Fund and shall not be segregated or invested as a separate unit; or (ii) if the Committee, with the approval of the Trustee determines, as part of a segregated fixed income fund, which shall consist of such assets as the Trustee deems appropriate. If implemented, all such separate accounts shall be invested and administered as a unit. The Committee shall promulgate whatever regulations it deems appropriate with respect to the implementation. of such fixed income fund.
- (b) The Trust Fund (including the fixed income fund, if implemented) shall be valued at fair market value on the last day of each Plan Year and all accounts shall be adjusted as of such date to reflect a proportionate share of investment income and realized and unrealized profits and losses as applicable under either Subparagraph (a)(i) or (a)(ii).
- (c) The benefits to which the Participant will be entitled upon his subsequent retirement, or, in the event of the Participant's death, the benefits to which the Beneficiary would be entitled, will normally be determined as of the last day of the Plan Year during which the Participant's employment terminated. Such benefits may, however, be determined by the Committee,
 - (i) as of any other date, in which event the Committee shall authorize the Trustee to value such Participant's account as of such date; or

- (ii) as of the last day of the Plan Year before the Participant's termination of employment, but such determination by the Committee may only be exercised with the written consent of the Participant or, in the event of the Participant's death, his Beneficiary. In determining such benefits, the Committee must also consider changes in the market value of the Trust Fund.
- (d) Subject to the provisions of Section 5.04, the Participant, or in the event of the Participant's death, his Beneficiary, shall be entitled to such retirement income (under the Normal Form of Retirement Benefit or such other options as provided under Article VII) as may be Actuarially Equivalent to such Participant's account value. Notwithstanding the above, in no event shall the Normal Form of Retirement Benefit provided under these provisions be less than the greater of 1) the Actuarial Equivalent of the Participant's Normal Form of Retirement Benefit determined as of the date such benefit was segregated or 2) the Participant's benefit determined based on his years of Credited Service and Average Monthly Compensation as of his Delayed Retirement Date.

5.03 *Early Retirement Benefit*

A Participant shall, upon retirement on Early Retirement Date, receive the Actuarial Equivalent of his Accrued Benefit which shall commence on the date elected in accordance with Section 4.03 and shall be payable under the Normal Form of Retirement Benefit. The amount of such monthly retirement benefit shall, subject to the provisions of Section 5.04 hereof, be determined in the same manner as for retirement at his Normal Retirement Date, except that years of Credited Service and Average Monthly Compensation shall be determined as of his Early Retirement Date. The benefit shall be reduced based on the number of months by which the Participant's early retirement precedes his Normal Retirement Date using the factors in Section 1.02.

5.04 Maximum Retirement Benefit

The definition of certain words and phrases used in this Section 5.04 are contained in Section 5.04(d) and shall, for purposes of this Section 5.04, supersede definitions for such words and phrases contained in Article I. Defined terms are capitalized.

- (a) This Section, except for Section (a)(ii), applies regardless of whether any Participant is or has ever been a Participant in another qualified plan maintained by the Employer. If any Participant is or has ever been a Participant in another qualified plan maintained by the Employer, or a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, or an individual medical account, as defined in Section 415(1)(2) of the Code, which provides an Annual Addition, Section 5.04(b) is also applicable to that Participant's benefits.
 - (i) The Annual Benefit otherwise payable to a Participant at any time will not exceed the Maximum Permissible Amount. If the benefit the Participant would Otherwise accrue in a Limitation Year would produce an annual benefit in excess of the Maximum Permissible Amount, the rate of accrual will be reduced so that the annual benefit will equal the Maximum Permissible Amount.
 - (ii) The Maximum Permissible Amount limitation is deemed satisfied if the Annual Benefit payable to a Participant is not more than \$1,000 multiplied by the Participant's number of Years of Service or portions thereof (not to exceed ten (10)) with the Employer, and the Employer has not at any time maintained a defined contribution plan, a welfare benefit plan as defined in Section 419(e) of the Code, or an individual medical account as defined in Section 415(1)(2) of the Code in which such Participant participated.
- (b)
 - (i) If a Participant is, or has ever been, covered under more than one defined benefit plan maintained by the Employer, the sum of the Participant's Annual Benefits from all such plans may not exceed the Maximum Permissible Amount.
 - (ii) If the Employer maintains, or at any time maintained, one or more qualified defined contribution plans covering any Participant in this Plan, a welfare benefit fund, as defined in Section 419(e) of the Code, or an individual medical account as defined in Section 415(1)(2) of the Code, the sum of the Participant's Defined Contribution Fraction and Defined Benefit Fraction will not exceed 1.0 in any limitation year.
 - (iii) If in any Plan Year the sum of the Defined Benefit Fraction and the Defined Contribution Fraction shall exceed 1.0 with respect to any Participant, the Employer shall reduce any contribution to the defined contribution plan on behalf of such Participant to the extent necessary to lower the numerator of the Defined Contribution Fraction so that the sum of both fractions does not exceed 1.0.
 - (iv) Effective January 1, 2000, the provisions of this subsection (b) shall no longer be applicable.
- (c) In the case of an individual who was a Participant in one or more defined benefit plans of the Employer as of the first day of the first Limitation Year beginning after December 31, 1986, the application of the limitations of this Article V shall not cause the Maximum Permissible Amount for such individual under all such defined benefit plans to be less than the individual's current Accrued Benefit. The preceding sentence applies only if such defined benefit plans met the requirements of Code Section 415, for all Limitation Years beginning before January 1, 1987.

For this purpose, a Participant's Accrued Benefit under the Plan, shall be determined as if the Participant had separated from service as of the close of the last Limitation Year beginning

before January 1, 1987, expressed as an Annual Benefit within the meaning of Section 415(b)(2) of the Code.

In determining the amount of a Participant's current Accrued Benefit, the following shall be disregarded:

- (i) any change in the terms and conditions of the Plan after May 5, 1986; and
 - (ii) any cost of living adjustments occurring after May 5, 1986.
- (d) *Definitions.*
- (i) *Annual Additions:* The sum of the following amounts credited to a Participant's account for limitation year:
 - (A) Employer contributions;
 - (B) Employee contributions;
 - (C) Forfeitures, and
 - (D) Amounts allocated to an individual medical account, as defined in Section 415(1)(2) of the Code, which is part of a pension or annuity plan maintained by the Employer are treated as Annual Additions to a defined contribution plan. Also, amounts derived from contributions paid or accrued after December 31, 1985, in taxable years ending after such date, which are attributable to post-retirement medical benefits allocated to the separate account of a Key Employee, as defined in Section 419A(d)(3) of the Code, under a welfare benefit fund, as defined in Section 419(e) of the Code, maintained by the Employer, are treated as Annual Additions to a defined contribution plan.
 - (ii) *Annual Benefit:* The annual benefit is a retirement benefit under the Plan which is payable annually in the form of a single life annuity. If the benefit payable to a Participant is not in the form of a single life annuity nor in the form of a Spouse Joint and Survivor Annuity, then the maximum annual amount determined above shall be reduced in accordance with the applicable regulations so that it is the actuarial equivalent of such amount as payable in the normal form. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02(d) of Part B except that mortality shall be based on the mortality table specified in Code Section 417(e)(3)(A)(ii)(I).
 - (iii) *Compensation:* A Participant's earned income, wages, salaries, and fees for professional services, and other amounts received for personal services actually rendered in the course of employment with the Employer maintaining the Plan (including, but not limited to, commissions paid salesmen, compensation for services on the basis of a percentage of profits, commissions on insurance premiums, tips and bonuses), and excluding the following:
 - (A) Employer contributions to a plan of deferred compensation which are not included in the Employee's gross income for the taxable year in which contributed, or any distributions from a plan of deferred compensation;
 - (B) Amounts realized from the exercise of a nonqualified stock option, or when restricted stock (or property) held by the Employee either becomes freely transferable or is no longer subject to a substantial risk of forfeiture;
 - (C) Amounts realized from the sale, exchange or other disposition of stock acquired under a qualified stock option; and

- (D) Effective for limitation years beginning after December 31, 1997, earnings shall include (i) any elective deferral as defined in Code Section 402(g)(3), and (ii) any amount which is contributed or deferred by the Employee at the election of the employee and which is not includible in the gross income of the employee by reason of Code Section 125, or, effective January 1, 2001, any amounts not includible in the gross income of the employee by reason of Section 132(f)(4) of the Code.

Compensation for any limitation year is the compensation actually paid or includible in gross income during such year.

For Limitation Years beginning on or after January 1, 1998, for purposes of determining Section 415 Compensation, amounts included pursuant to Section 125 of the Code shall include amounts not available to a Participant in cash in lieu of group health coverage because the Participant is unable to certify that he or she has other health coverage. An amount will be treated as an amount under Section 125 only if the Employer does not request or collect information regarding the Participant's other health coverage as part of the enrollment process for the health plan.

- (iv) *Defined Benefit Dollar Limitation:* The dollar limitation specified in Code Section 415(b)(1)(A). Effective on January 1, 1988, and each January thereafter, the dollar limitation specified in Code Section 415(b)(1)(A) above will be automatically adjusted by multiplying such limit by the cost of living adjustment factor prescribed by the Secretary of the Treasury under Section 415(d) of the Code in such manner as the Secretary shall prescribe. The new limitation will apply to Limitation Years ending within the calendar year of the date of the adjustment. The new limit specified in Section 415(b)(1)(A) of the Code shall apply only to Participants who are credited with at least one Hour of Service on or after the first day of the first Limitation Year beginning after December 31, 2001.
- (v) *Defined Benefit Fraction:* A fraction, the numerator of which is the sum of the Participant's projected Annual Benefits under all the defined benefit plans (whether or not terminated) maintained by the Employer, and the denominator of which is the lesser of one hundred twenty-five percent (125%) of the dollar limitation determined for the Limitation Year under Sections 415(b) and (d) of the Code and in accordance with Section 5.04(d)(x)(B) below or one hundred forty percent (140%) of the Participant's Highest Average Compensation, including any adjustments under Section 415(b) of the Code.

Notwithstanding the above, if the Participant was a Participant as of the first day of the first Limitation Year beginning after December 31, 1986, in one or more defined benefit plans maintained by the Employer which were in existence on May 6, 1986, the denominator of this fraction will not be less than one hundred twenty-five percent (125%) of the sum of the Annual Benefits under such plans which the Participant had accrued as of the close of the last Limitation Year beginning before January 1, 1987, disregarding any changes in the terms and conditions of the Plans after May 5, 1986. The preceding sentence applies only if the defined benefit plans individually and in the aggregate satisfied the requirements of Code Section 415 for all Limitation Years beginning before January 1, 1987.

Effective January 1, 2000, the provisions of this subsection (v) shall no longer be applicable.

- (vi) *Defined Contribution Fraction:* A fraction, the numerator of which is the sum of the Annual Additions to the Participant's account under all the defined contribution plans

(whether or not terminated) maintained by the Employer for the current and all prior Limitation Years, (including the annual additions attributable to the Participant's nondeductible Employee contributions to this and all other defined benefit plans, (whether or not terminated) maintained by the Employer, and the Annual Additions attributable to all welfare benefit funds, as defined in Section 419(e) of the Code or individual medical accounts, as defined in Section 415(1)(2) of the Code, maintained by the Employer), and the denominator of which is the sum of the Maximum Aggregate Amounts for the current and all prior Limitation Years of service with the Employer (regardless of whether a defined contribution plan was maintained by the Employer).

The Maximum Aggregate Amount in any Limitation Year is the lesser of one hundred twenty-five percent (125%) of the dollar limitation in effect under Section 415(c)(1)(A) of the Code or thirty-five percent (35%) of the Participant's Compensation for such year.

The Annual Addition for any limitation year beginning before January 1, 1987, shall not be recomputed to treat all Employee contributions as Annual Additions.

Effective January 1, 2000, the provisions of this subsection (vi) shall no longer be applicable.

- (vii) *Employer:* For purposes of this Article, Employer shall mean the Employer that adopts this Plan, and all members of a controlled group of corporations (as defined in Section 414(b) of the Code, as modified by Section 415(h)), all commonly controlled trades or businesses (as defined in Section 414(c) as modified by Section 415(h)), or affiliated service groups (as defined in Section 414(m)) of which the adopting Employer is a part, and any other entity required to be aggregated with the Employer pursuant to regulations under Section 414(o) of the Code.
- (viii) *Highest Average Compensation:* The average compensation for the three consecutive Years of Service with the Employer that produces the highest average.
- (ix) *Limitation Year:* The Plan Year.
- (x) *Maximum Permissible Amount:*
 - (A) The lesser of the Defined Benefit Dollar Limitation or one hundred percent (100%) of the Participant's Highest Average Compensation.
 - (B) If the Participant has less than ten (10) years of participation with the Employer, the Defined Benefit Dollar Limitation is reduced by one-tenth ($\frac{1}{10}$) for each year of participation (or part thereof) less than ten (10).

To the extent provided in regulations or in other guidance issued by the Internal Revenue Service, the preceding sentence shall be applied separately with respect to each change in the benefit structure of the Plan. If the Participant has less than ten (10) Years of Credited Service with the Employer, the Compensation limitation is reduced by one-tenth ($\frac{1}{10}$) for each Year of Credited Service (or part thereof) less than ten (10). The adjustments of this Section (B) shall be applied in the denominator of the Defined Benefit Fraction based upon Years of Service. Years of Service shall include future years occurring before the Participant's Normal Retirement Age. Such future years shall include the year which contains the date the Participant reaches Normal Retirement Age, only if it can be reasonably anticipated that the Participant will receive a Year of Credited Service for such year.
 - (C) [Reserved]

- (D) For limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences prior to age 62, the maximum dollar limitation defined in paragraph (d)(iv) shall be the actuarial equivalent of such amount payable at age 62. For purposes of this paragraph, actuarial equivalent shall be based on the plan's early retirement reductions or the mortality table specified in Code Section 417(e)(3)(A)(ii)(I) and an interest rate of 5%, whichever produces the smaller amount.
- (E) If the Annual Benefit of a Participant commences after the Participant's Social Security Retirement Age, the Defined Benefit Dollar Limitation, as reduced in (B) above, if necessary, shall be adjusted so that it is the actuarial equivalent of an Annual Benefit of such dollar limitation beginning at the Participant's Social Security Retirement Age. Effective for Limitation Years beginning on or after January 1, 1995, to determine actuarial equivalence, the assumption set forth in Section 1.02(d) or an interest rate of 5% and the mortality table specified in Code Section 417(e)(3) whichever produces the smaller increase in the Defined Benefit Dollar Limitation shall be used. Notwithstanding the foregoing, effective for Limitation Years beginning on or after January 1, 2002, if the benefit payable to a Participant commences after his or her attainment of age 65, the dollar limitation defined in paragraph (d)(iv) above shall be increased so it is the actuarial equivalent of such amount payable commencing at age 65. For purposes of this paragraph, actuarial equivalent shall be determined using the assumptions in Section 1.02(d), or the mortality table specified in Code Section 417(e)(3) and an interest rate of 5%, whichever produces the smaller increase.
- (xi) *Projected Annual Benefit:* The Annual Benefit as defined in Section (d)(ii), to which the Participant would be entitled under the terms of the Plan assuming:
 - (A) The Participant will continue employment until Normal Retirement Age under the Plan (or current age, if later), and
 - (B) the Participant's Compensation for the current Limitation Year and all other relevant factors used to determine benefits under the Plan will remain constant for all future Limitation Years.
- (xii) *Social Security Retirement Age:* Age sixty-five (65) in the case of a Participant attaining age sixty-two (62) before January 1, 2000 (i.e., born before January 1, 1938), age sixty-six (66) for a Participant attaining age sixty-two (62) after December 31, 1999, and before January 1, 2017 (i.e., born after December 31, 1937, but before January 1, 1955), and age sixty-seven (67) for a Participant attaining age sixty-two (62) after December 31, 2016 (i.e., born after December 31, 1954).
- (xiii) *Year of Participation:* The Participant shall be credited with a Year of Participation (computed to fractional parts of a year) for each accrual Computation Period for which the following conditions are met: (1) The Participant is credited with a Period of Service for benefit accrual purposes, required under the terms of the Plan in order to accrue a benefit for the accrual Computation Period, and (2) the Participant is included as a Participant under the eligibility provisions of the Plan for at least one (1) day of the accrual Computation Period. If these two conditions are met, the portion of a Year of Participation credited to the Participant shall equal the amount of benefit accrual service credited to the Participant for such accrual Computation Period. A Participant who is permanently and totally disabled within the meaning of Plan Section 9.06 for an accrual Computation Period shall receive a Year of Participation with respect to that period. In addition, for a Participant to receive a Year of Participation (or part thereof) for an

accrual Computation Period, the Plan must be established no later than the last day of such accrual Computation Period. In no event will more than one Year of Participation be credited for any 12-month period.

- (A) Notwithstanding any other Plan provision to the contrary, with respect to distributions with benefit commencement dates occurring on or after January 1, 2003, the mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C) or (D) of the Code shall be the mortality table specified in Section 417(e)(3)(a)(ii)(I) of the Code.
- (e) Notwithstanding any provision in the Plan to the contrary, for Plan Years beginning in 2004 and 2005, when determining the maximum distribution under Code Section 415(b)(2)(E)(ii), the adjustment for optional forms of payment subject to Code Section 417(e)(3) will use an interest rate assumption of 5.5% or the rate used in the Plan (whichever provides a greater straight life annuity).

5.05 *Required Benefit Commencement*

Notwithstanding the Delayed Retirement provisions above, each Participant who remains employed beyond his Required Beginning Date (as defined in Article VIII), must begin to receive the minimum distributions required under Article VIII. Such Participant's benefit shall be recalculated for each calendar year following the initial required distribution on the basis of his Average Monthly Compensation and Credited Service as of each January 1, but in no event less than the benefit amount paid prior to the recalculation.

ARTICLE VI

JOINT AND SURVIVOR AND PRERETIREMENT DEATH BENEFITS

6.01 Automatic Joint And Survivor Annuity

- (a) Unless an optional form of benefit is selected, as described in Article VII, pursuant to a qualified election described in Section 6.02, within the 90-day period ending on the Annuity Starting Date, a married Participant's vested Accrued Benefit will be paid in the form of an automatic joint and survivor annuity and an unmarried Participant's vested Accrued Benefit will be paid in the form of an immediate life annuity with 120 monthly payments certain. The Participant may elect to have such annuity distributed upon attainment of the earliest retirement age under the Plan.
- (b) An "automatic joint and survivor annuity" is an immediate non transferable annuity for the life of the Participant with a survivor annuity for the life of the Spouse which is fifty percent (50%) of the amount of the annuity which is payable during the joint lives of the Participant and the Spouse and which is the Actuarial Equivalent of the Normal Form of Retirement Benefit.
- (c) A Participant's "earliest retirement age" is the earliest date on which, under the Plan, the Participant could elect to receive retirement benefits.

6.02 Qualified Election

A Participant may waive the automatic joint and survivor annuity described in Section 6.01 only if:

- (a) the Participant's Spouse consents in writing to the election;
- (b) with the exception of a life annuity the election designates a specific alternate Beneficiary, including any class of Beneficiaries or any contingent Beneficiaries, which may not be changed without spousal consent, or the Spouse expressly permits designations by the Participant without any further spousal consent;
- (c) the Spouse's consent acknowledges the effect of the election; and
- (d) the Spouse's consent is witnessed by a plan representative or notary public. Additionally, a Participant's waiver of the qualified joint and survivor annuity will not be effective unless the election designates a form of benefit payment which may not be changed without spousal consent, or the spouse expressly permits designations by the participant without any further spousal consent.

If it is established to the satisfaction of the Committee that such written consent may not be obtained because there is no Spouse or the Spouse cannot be located, a waiver will be deemed a qualified election.

Any consent by a Spouse obtained under this provision (or establishment that the consent of a Spouse may not be obtained) shall be effective only with respect to such Spouse. A consent that permits designations by the Participant without any requirement of further consent by such Spouse must acknowledge that the Spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the Spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the Spouse at any time prior to the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this provision shall be valid unless the Participant has received notice as provided in subsection (e) below.

- (e) The Committee shall provide each Participant, no less than thirty (30) days and no more than ninety (90) days prior to the payment commencement date, a written explanation of:
 - (i) the terms and conditions of an automatic joint and survivor annuity;
 - (ii) the Participant's right to make and the effect of an election to waive the automatic joint and survivor annuity form of benefit;
 - (iii) the rights of a Participant's Spouse;
 - (iv) the right to make, and the effect of, a revocation of a previous election to waive the automatic joint and survivor annuity; and
 - (v) the relative values of the various optional forms of benefit under the Plan.

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

6.03 *Qualified Preretirement Survivor Annuity*

- (a) If a vested Participant dies after the earliest retirement age, but prior to the Annuity Starting Date, such Participant's surviving Spouse, if any, will receive the same benefit that would be payable if the Participant had retired with an immediate automatic joint and survivor annuity, as defined in Section 6.01(b), payable on the day before such Participant's death.
- (b) The surviving Spouse may elect to commence payment under such annuity on the first day of any month after the Participant's death. The actuarial value of benefits which commence later than the date on which payments would have been made to the surviving Spouse under an automatic joint and survivor annuity commencing at the Participant's earliest retirement age under the Plan in accordance with this provision shall be adjusted to reflect the delayed payment.
- (c) If a vested Participant dies on or before the earliest retirement age, the Participant's surviving Spouse (if any) will receive the same benefit that would be payable if the Participant had:
 - (i) separated from service on the date of death (or date of separation from service, if earlier),
 - (ii) survived to the earliest retirement age,
 - (iii) retired with an immediate qualified joint and survivor annuity at the earliest retirement age, and
 - (iv) died on the day after the earliest retirement age.
- (d) Subject to the provisions of Section 8.04 of the Plan, a surviving Spouse will begin to receive payments at the Participant's earliest retirement age. Benefits commencing after the Participant's earliest retirement age will be the Actuarial Equivalent of the benefit to which

the surviving Spouse would have been entitled if benefits had commenced at the earliest retirement age under an immediate automatic joint and survivor annuity.

- (e) Before the commencement of a retirement benefit, upon the death of (i) a Vested Participant subsequent to termination of employment (ii) a Retired Participant who had elected to defer the commencement of his retirement benefit, or (iii) a Participant for whom the commencement of benefits had been deferred, an automatic joint and survivor annuity with 50% of such annuity continued to his Spouse commencing on the earliest commencement date. In no event shall the benefit provided to the Spouse be a benefit which may be provided from the applicable portion of the accumulation value under a deferred annuity payable upon the Participant's death before the commencement of a retirement benefit. For Retired Participants in accordance with Subsection (ii) above, the applicable portion shall be 100% of the accumulation value and for Participants in accordance with Subsection (i) and (iii) above, 50% of the accumulation value.

In lieu of the benefits described in the above paragraph, the Participant may elect to provide for the payment of the portion of the accumulation value under the deferred annuity payable upon death to any designated Beneficiary, provided the Participant's Spouse consents to such election. In the absence of a surviving Spouse or designated Beneficiary, the death benefit shall be paid to the Participant's estate. In the event of the Participant's death before the purchase of the annuity contract, benefits will be provided as if the annuity had been purchased on the day before the Participant's death.

6.04 *Qualified Election*

- (a) A Participant may waive the 100% joint and survivor annuity with his Spouse as Beneficiary in accordance Section 6.03(e) only if:
 - (i) the Participant's Spouse consents in writing to the election;
 - (ii) the election designates a specific alternate Beneficiary, including any class of Beneficiaries or any contingent Beneficiaries, which may not be changed without spousal consent, or the Spouse expressly permits designations by the Participant without any further spousal consent;
 - (iii) the Spouse's consent acknowledges the effect of the election; and
 - (iv) the Spouse's consent is witnessed by a plan representative or notary public.

If it is established to the satisfaction of the Committee that such written consent may not be obtained because there is no Spouse or the Spouse cannot be located, a waiver will be deemed a qualified election. Any consent by a Spouse obtained under this provision (or establishment that the consent of a Spouse may not be obtained) shall be effective only with respect to such Spouse. A consent that permits designations by the Participant without any requirement of further consent by such Spouse must acknowledge that the Spouse has the right to limit consent to a specific Beneficiary, and a specific form of benefit where applicable, and that the Spouse voluntarily elects to relinquish either or both of such rights. A revocation of a prior waiver may be made by a Participant without the consent of the Spouse at any time prior to the commencement of benefits. The number of revocations shall not be limited. No consent obtained under this provision shall be valid unless the Participant has received notice as provided in 6.05 below.

6.05 Notice Requirements

The Committee shall provide each Participant within the applicable period for such Participant, a written explanation of the qualified preretirement survivor annuity in such terms and in such a manner as would be comparable to the explanation provided for meeting the requirements applicable to an automatic joint and survivor annuity in Section 6.02(e). The applicable period for a Participant is whichever of the following periods ends last:

- (a) the period beginning with the first day of the Plan Year in which the Participant attains age thirty-two (32) and ending with the close of the Plan Year preceding the Plan Year in which the Participant attains age thirty-five (35);
- (b) a reasonable period ending after the individual becomes a Participant;
- (c) a reasonable period ending after this Article first applies to the Participant.

Notwithstanding the foregoing, notice must be provided within a reasonable period ending after separation of service in case of a Participant who separates from service before attaining age thirty-five (35).

For purposes of the preceding paragraph, a reasonable period ending after the enumerated events described in (b) and (c) is the end of the two (2) year period beginning one (1) year prior to the date the applicable event occurs and ending one (1) year after that date. In the case of a Participant who separates from service before the Plan Year in which age thirty-five (35) is attained, notice shall be provided within the two (2) year period beginning one (1) year prior to separation and ending one (1) year after separation. If such a Participant thereafter returns to employment with the Employer, the applicable period for such Participant shall be redetermined.

ARTICLE VII

OPTIONAL METHODS OF RETIREMENT PAYMENTS

7.01 *Optional Elections*

Each vested Participant whose Accrued Benefit has a present value in excess of \$5,000 shall have the right, at any time and from time to time prior to the commencement of a retirement benefit hereunder, to elect to have such retirement benefit payable under any one of the options hereinafter set forth in this Section in lieu of the retirement benefit otherwise payable under any of the provisions of the Plan. The amount of any optional retirement benefit shall be the Actuarial Equivalent of the Normal Form of Retirement Benefit otherwise payable to such Participant. The Participant shall make such an election by written request to the Committee and such an election will be subject to the spousal consent requirement of Article VI.

- (a) *Joint and Survivor Option:* A married Participant may elect to receive a monthly retirement benefit during the lifetime of the Participant and have either fifty percent (50%) or one hundred percent (100%) of such monthly retirement benefit continued after the Participant's death to a Contingent Annuitant or Spouse during the remaining lifetime of the Contingent Annuitant or Spouse within the restrictions contained in Section 8.04(b)(ii).
- (b) *Lump-Sum Option:* Prior to October 1, 1995, a Participant who is eligible for Early or Normal Retirement may elect to receive, in lieu of any other benefits hereunder, a lump sum payment representing the Actuarial Equivalent of the Participant's Accrued Benefit under the Plan. On or after October 1, 1995, a Participant who is eligible for Early or Normal Retirement may elect to receive a lump sum payment representing the Actuarial Equivalent of the Participant's Accrued Benefit under the Plan as of September 30, 1995, in addition to the Participant's Accrued Benefit earned on and after October 1, 1995 in another form of payment provided under the Plan.
- (c) *Period Certain Option:* A Participant may elect to receive a monthly retirement benefit during the Participant's lifetime, with payments guaranteed for one hundred eighty (180) months. Should a Participant who has elected this option die before receiving the specified number of payments, such payments shall be continued to a Beneficiary designated by the Participant until the total payments made are equal to the guaranteed number.
- (d) A Participant may elect to receive a monthly retirement benefit under any optional form available under the Plan prior to the effective date of this restated Plan of that portion of his benefit as accrued through such effective date.

Notwithstanding the above, the Joint and 100% Survivor Option as described in subsection (a) hereof and the one hundred eighty (180) month Period Certain Option as described in subsection (c) hereof are not available to Participants who are eligible for a Disability Retirement.

7.02 *Limitation On Optional Elections*

- (a) Payments under any optional retirement benefit elected under the provisions of Section 7.01 hereof shall be subject to the distribution period restrictions of Sections 8.03 and 8.04.
- (b) A Participant may not elect irrevocably before retirement any option which would with certainty pay all or part of his non-forfeitable interest to a designated Beneficiary after the Participant's death.
- (c) Any annuity contract distributed by the Plan must be nontransferable.

- (d) Once distributions under an optional form of benefit have begun, such form of payment shall be irrevocable.
- (e) If a Participant's benefits are required to commence in accordance with Article VIII, such Participant shall make an irrevocable election as to the optional form of payment. All such benefits shall be paid directly from the Trust Fund. Subject to Section 6.01 the options available will include options available to retirees in accordance with Section 7.01. Upon subsequent termination of employment for any reason, the optional form previously elected will remain in effect.
- (f) The distribution of a lump sum payment or an annuity to the Participant or his Beneficiary will constitute the complete discharge of all obligations of the Plan.

7.03 *Deferred Annuity Purchase*

A deferred annuity shall be purchased on behalf of

- (a) a Vested Participant;
- (b) a Retired Participant who makes an election to defer commencement of his retirement benefit in accordance with Section 4.07 or 7.02(e); and
- (c) a Participant's Spouse entitled to deferred benefits in accordance with Article VIII or who makes an election to defer commencement in accordance with Article VIII.

The retirement benefit under the deferred annuity will initially be payable under the Normal Form of Retirement Benefit or one of the optional forms under Section 7.01, as elected by the Participant. Subject to Section 6.01, a Participant may, before the commencement of his retirement benefit, change such optional form to any other form of retirement benefit available under the annuity, including those available under Section 7.01 and the Normal Form of Retirement Benefit, by filing a request with the insurance company and complying with the terms and provisions of such annuity.

If a deferred annuity is purchased on behalf of a Participant or Beneficiary, a lump sum distribution shall not be permitted at any later date.

ARTICLE VIII

REQUIRED COMMENCEMENT OF BENEFITS

8.01 Minimum Distribution Requirements

(a) General Rules

- (i) *Effective Date.* The provisions of this Section 8.01 will apply for purposes of determining required minimum distributions for calendar years beginning with the 2003 calendar year.
- (ii) *Precedence.* The requirements of this article will take precedence over any inconsistent provisions of the Plan.
- (iii) *Requirements of Treasury Regulations Incorporated.* All distributions required under this Section 8.01 will be determined and made in accordance with the Treasury regulations under Section 401(a)(9) of the Code.
- (iv) *TEFRA Section 242(b)(2) Elections.* Notwithstanding the other provisions of this Section 8.01, other than paragraph (a) (iii) above, distributions may be made under a designation made before January 1, 1984, in accordance with Section 242 (b)(2) of the Tax Equity and Fiscal Responsibility Act ("TEFRA") and the provisions of the Plan that relate to Section 242 (b)(2) of TEFRA.

(b) Time and Manner of Distribution

- (i) *Required Beginning Date.* The Participant's entire interest will be distributed, or begin to be distributed, to the Participant no later than the Participant's Required Beginning Date.
- (ii) *Death of Participant Before Distributions Begin.* If the Participant dies before distributions begin, the Participant's entire interest will be distributed, or begin to be distributed, no later than as follows:
 - (A) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, then distributions to the surviving Spouse will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died, or by December 31 of the calendar year in which the Participant would have attained age 70 ¹ / 2, if later.
 - (B) If the Participant's surviving Spouse is not the Participant's sole Designated Beneficiary, then distributions to the Designated Beneficiary will begin by December 31 of the calendar year immediately following the calendar year in which the Participant died.
 - (C) If there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, the Participant's entire interest will be distributed by December 31 of the calendar year containing the fifth anniversary of the Participant's death.
 - (D) If the Participant's surviving Spouse is the Participant's sole Designated Beneficiary and the surviving Spouse dies after the Participant but before distributions to the surviving Spouse begin, this Subsection 8.01(b)(ii), other than Subsection 8.01(b)(ii)(A), will apply as if the surviving Spouse were the Participant.

For purposes of this Subsection 8.01(b)(ii) and Subsection 8.01(e), distributions are considered to begin on the Participant's Required Beginning Date (or, if Subsection 8.01(b)(ii)(D) applies, the date distributions are required to begin to the surviving Spouse under Subsection 8.01(b)(ii)(A). If annuity payments irrevocably commence to the Participant before the Participant's Required Beginning Date (or to the

Participant's surviving Spouse before the date distributions are required to begin to the surviving Spouse under Subsection 8.01(b)(ii)(A), the date distributions are considered to begin is the date distributions actually commence.

- (iii) *Form of Distribution.* Unless the Participant's interest is distributed in the form of an annuity purchased from an insurance company or in a single sum on or before the Required Beginning Date, as of the first Distribution Calendar Year distributions will be made in accordance with Sections (c), (d) and (e) of this Section 8.01. If the Participant's interest is distributed in the form of an annuity purchased from an insurance company, distributions thereunder will be made in accordance with the requirements of Section 401(a)(9) of the Code and the Treasury regulations. Any part of the Participant's interest which is in the form of an individual account described in Section 414(k) of the Code will be distributed in a manner satisfying the requirements of section 401(a)(9) of the Code and the Treasury regulations that apply to individual accounts.

(c) **Determination of Amount to be Distributed Each Year**

- (i) *General Annuity Requirements.* If the Participant's interest is paid in the form of annuity distributions under the plan, payments under the annuity will satisfy the following requirements:
 - (A) the annuity distributions will be paid in periodic payments made at intervals not longer than one year;
 - (B) the distribution period will be over a life (or lives) or over a period certain not longer than the period described in Subsection (d) or (e);
 - (C) once payments have begun over a period certain, the period certain will not be changed even if the period certain is shorter than the maximum permitted;
 - (D) payments will either be nonincreasing or increase only as follows:
 - (1) by an annual percentage increase that does not exceed the annual percentage increase in a cost-of-living index that is based on prices of all items and issued by the Bureau of Labor Statistics;
 - (2) to the extent of the reduction in the amount of the Participant's payments to provide for a survivor benefit upon death, but only if the Beneficiary whose life was being used to determine the distribution period described in Subsection (d) dies or is no longer the Participant's Beneficiary pursuant to a Qualified Domestic Relations Order within the meaning of section 414(p);
 - (3) to provide cash refunds of employee contributions upon the Participant's death; or
 - (4) to pay increased benefits that result from a Plan amendment.
- (ii) *Amount Required to be Distributed by Required Beginning Date.* The amount that must be distributed on or before the Participant's Required Beginning Date (or, if the Participant dies before distributions begin, the date distributions are required to begin under Subsection 8.01(b)(ii)(A) or (B) is the payment that is required for one payment interval. The second payment need not be made until the end of the next payment interval even if that payment interval ends in the next calendar year. Payment intervals are the periods for which payments are received, e.g., bi-monthly, monthly, semi-annually, or annually. All of the Participant's benefit accruals as of the last day of the first Distribution Calendar Year will be included in the calculation of the amount of the annuity payments for payment intervals ending on or after the Participant's Required Beginning Date.

- (iii) *Additional Accruals After First Distribution Calendar Year.* Any additional benefits accruing to the Participant in a calendar year after the first Distribution Calendar Year will be distributed beginning with the first payment interval ending in the calendar year immediately following the calendar year in which such amount accrues.

(d) **Requirements For Annuity Distributions That Commence During Participant's Lifetime**

- (i) *Joint Life Annuities Where the Beneficiary Is Not the Participant's Spouse.* If the Participant's interest is being distributed in the form of a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary, annuity payments to be made on or after the Participant's Required Beginning Date to the Designated Beneficiary after the Participant's death must not at any time exceed the applicable percentage of the annuity payment for such period that would have been payable to the Participant using the table set forth in Q&A-2 of Section 1.401(a)(9)-6T of the Treasury regulations. If the form of distribution combines a Joint and Survivor Annuity for the joint lives of the Participant and a nonspouse Beneficiary and a period certain annuity, the requirement in the preceding sentence will apply to annuity payments to be made to the Designated Beneficiary after the expiration of the period certain.
- (ii) *Period Certain Annuities.* Unless the Participant's Spouse is the sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain for an annuity distribution commencing during the Participant's lifetime may not exceed the applicable distribution period for the Participant under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations for the calendar year that contains the Benefit Commencement Date. If the Benefit Commencement Date precedes the year in which the Participant reaches age 70, the applicable distribution period for the Participant is the distribution period for age 70 under the Uniform Lifetime Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations plus the excess of 70 over the age of the Participant as of the Participant's birthday in the year that contains the Benefit Commencement Date. If the Participant's Spouse is the Participant's sole Designated Beneficiary and the form of distribution is a period certain and no life annuity, the period certain may not exceed the longer of the Participant's applicable distribution period, as determined under this Subsection (d)(ii), or the joint life and last survivor expectancy of the Participant and the Participant's Spouse as determined under the Joint and Last Survivor Table set forth in Section 1.401(a)(9)-9 of the Treasury regulations, using the Participant's and Spouse's attained ages as of the Participant's and Spouse's birthdays in the calendar year that contains the Benefit Commencement Date.

(e) **Requirements For Minimum Distributions Where Participant Dies Before Date Distributions Begin**

- (i) *Participant Survived by Designated Beneficiary.* If the Participant dies before the date distribution of his or her interest begins and there is a Designated Beneficiary, the Participant's entire interest will be distributed, beginning no later than the time described in Subsection (b)(ii)(A) or (B), over the life of the Designated Beneficiary or over a period certain not exceeding:
 - (A) unless the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's age as of the Beneficiary's birthday in the calendar year immediately following the calendar year of the Participant's death; or
 - (B) if the Benefit Commencement Date is before the first Distribution Calendar Year, the Life Expectancy of the Designated Beneficiary determined using the Beneficiary's

age as of the Beneficiary's birthday in the calendar year that contains the Benefit Commencement Date.

- (ii) *No Designated Beneficiary.* If the Participant dies before the date distributions begin and there is no Designated Beneficiary as of September 30 of the year following the year of the Participant's death, distribution of the Participant's entire interest will be completed by December 31 of the calendar year containing the fifth anniversary of the Participant's death
- (iii) *Death of Surviving Spouse Before Distributions to Surviving Spouse Begin.* If the Participant dies before the date distribution of his or her interest begins, the Participant's surviving Spouse is the Participant's sole Designated Beneficiary, and the surviving Spouse dies before distributions to the surviving Spouse begin, this Subsection (e) will apply as if the surviving Spouse were the Participant, except that the time by which distributions must begin will be determined without regard to Subsection (b)(ii)(A).

(f) **Definitions**

- (i) *Designated Beneficiary.* The individual who is designated as the Beneficiary and is the designated beneficiary under Section 401(a)(9) of the Code and Section 1.401(a)(9)-1, Q&A-4, of the Treasury regulations.
- (ii) *Distribution Calendar Year.* A calendar year for which a minimum distribution is required. For distributions beginning before the Participant's death, the first Distribution Calendar Year is the calendar year immediately preceding the calendar year which contains the Participant's Required Beginning Date. For distributions beginning after the Participant's death, the first Distribution Calendar Year is the calendar year in which distributions are required to begin pursuant to Subsection (b)(ii).
- (iii) *Life Expectancy.* Life expectancy as computed by use of the Single Life Table in Section 1.401(a)(9)-9 of the Treasury regulations.
- (iv) *Required Beginning Date.* The date described in Section 5.06(b) of the Plan.

ARTICLE IX

BENEFITS ON TERMINATION OF EMPLOYMENT AND RETIREMENT UPON DISABILITY

9.01 Termination Generally

All rights of a Participant to all benefits under the Plan will cease upon his termination of employment with the Employer prior to satisfaction of the conditions for retirement set forth in Article IV of the Plan, for a reason other than death, except as otherwise provided in the following Sections of this Article. The only benefits of any kind payable under any of the provisions of the Plan in the event of the death of a Participant prior to commencement of his retirement benefit are those provided in Article VI and Article VII hereof.

9.02 Conditions For Vested Retirement Benefits

If a Participant is in the employment of the Employer on the date he attains Normal Retirement Age, he shall have a one hundred percent (100%) vested interest in his Accrued Benefit. If the Participant terminates employment with the Employer at any time prior to his Normal or Early Retirement Date, other than by death or Disability, the Participant shall have a vested interest in his Accrued Benefit equal to the percentage determined in accordance with the following schedule on the basis of his Years of Service:

Number of Years	Percentage of Accrued Benefit
Less than 5 full years	0%
5 full years	100%

9.03 Amount Of Vested Retirement Benefit

- (a) A terminated vested Participant shall receive his Accrued Benefit, determined as provided in this Section 9.03, commencing on his Normal Retirement Date. The amount of monthly retirement benefit payable shall be determined in the manner provided in Section 5.01 with years of Credited Service and Average Monthly Compensation determined as of the date of his termination of employment.
- (b) If a Participant satisfies the requirement for the commencement of benefits prior to his Normal Retirement Date in accordance with the provisions of Section 4.03(b) the amount of such pension shall be the vested amount provided in Section 9.02 reduced in accordance with the provisions of Section 1.02.

9.04 *Single Sum Payment Of Value Of Vested Retirement Benefits*

- (a) (1) Effective for distributions determined on or after March 28, 2005, if the Actuarial Equivalent of the Accrued Benefit payable to the Participant or the death benefit payable to the Participant's surviving Spouse under the Plan does not exceed \$1,000 on the date of distribution or does not exceed \$5,000 as of a distribution date on or after the Participant's Normal Retirement Date, such amount shall be automatically paid to the Participant or surviving Spouse in a lump sum.

Distribution shall be made as soon as practicable after the Participant's termination of employment or death.

- (2) Effective for distributions determined on and after March 28, 2005, if the Actuarial Equivalent of the Accrued Benefit payable to the Participant or the death benefit payable to the Participant's surviving Spouse under the Plan exceeds \$1,000 but is not in excess of \$5,000 as of the date of distribution prior to the Participant's Normal Retirement Date, the Participant or surviving spouse may elect in writing, on a form provided by the Committee, to receive the distribution in a lump sum at any time prior to the Participant's Normal Retirement Date. If the Participant or surviving Spouse does not make a timely election, the lump sum option under this Section 9.04(a)(2) will be available at the Participant's or surviving Spouse's election prior to the Participant's Normal Retirement Date only if the Actuarial Equivalent of the Accrued Benefit payable to the Participant or the death benefit payable to the Participant's surviving Spouse is not in excess of \$5,000 as of any subsequent distribution date. If the Actuarial Equivalent of the Accrued Benefit payable to the Participant or the death benefit payable to the Participant's surviving Spouse under the Plan exceeds \$5,000, then the provisions of this Section 9.04(a)(2) shall not apply.
- (3) Payment of such small amounts shall be in final satisfaction of any rights with respect to a Participant's benefits under the Plan. No distribution shall be made under this Section 9.04(a) after a Participant's benefit commencement date, unless the Participant and the Participant's Spouse, or where the Participant has died, the surviving Spouse consents in writing to such distribution.
- (4) For purposes of this Section, the Accrued Benefit payable to the Participant or the death benefit payable to a Participant's surviving spouse shall also include any amounts payable under the Plan that are not attributable to this Part B of the Plan.
- (b) If a Participant receives or is deemed to receive a distribution pursuant to this Section at a time when his Accrued Benefit was not fully vested and the Participant resumes covered employment under the Plan, he shall have the right to restore his Employer-derived Accrued Benefit (including all optional forms of benefits and subsidies relating to such benefits) to the extent forfeited upon the repayment to the Plan of the full amount of the distribution plus interest, compounded annually from the date of distribution at the rate of five percent (5%). Such repayment must be made not later than five (5) years after the first date on which the Participant is subsequently reemployed by the Employer.
- (c) If a Participant receives or is deemed to receive a cashout under paragraph (a) above, then all Periods of Service for which he receives payment shall be disregarded for purposes of benefit accrual unless he makes the repayment described in paragraph (b) above.

9.05 *Participant And Spousal Consent For Immediately Distributable Benefits*

If the Actuarial Equivalent of the vested Accrued Benefit payable to the Participant or the death benefit payable to the Participant's surviving spouse exceeds \$5,000, and such Accrued Benefit or

death benefit is immediately distributable prior to the Participant's Normal Retirement Age, the Participant and the Participant's Spouse (or where either the Participant or the Spouse has died, the survivor) must consent to any distribution of such Accrued Benefit. The consent of the Participant and the Participant's Spouse shall be obtained in writing within the 90-day period ending on the Annuity Starting Date. The Committee shall notify the Participant and the Participant's Spouse of the right to defer any distribution until the Participant's Accrued Benefit is no longer immediately distributable. Such notification shall include a general description of the material features, and an explanation of the relative values of, the optional forms of benefit available under Article VII of the Plan in a manner that would satisfy the notice requirements of Code Section 417(a)(3), and shall be provided no less than thirty (30) days and no more than ninety (90) days prior to the Annuity Starting Date. Notwithstanding the foregoing, only the Participant need consent to the commencement of a distribution in the form of an Automatic Joint and Survivor Annuity, described in Section 6.01 of the Plan, while the Accrued Benefit is immediately distributable. Neither the consent of the Participant nor the Participant's Spouse shall be required to the extent that a distribution is required to satisfy Section 401(a)(9) or Section 415 of the Code. An Accrued Benefit is "immediately distributable" if any part of the Accrued Benefit could be distributed to the Participant (or surviving Spouse) before the Participant attains (or would have attained if not deceased) the later of Normal Retirement Age or age sixty-two (62).

Notwithstanding the foregoing, the failure of a Participant and Spouse to consent to a distribution while a benefit is immediately distributable shall be deemed to be an election to defer commencement of any benefit sufficient to satisfy this Section.

9.06 Disability Termination

- (a) A Participant shall be eligible for a Disability Retirement as defined in Section 4.04 if he has incurred, through some unavoidable cause, a total and permanent Disability as defined in Article I. Disability shall be deemed to have resulted from an unavoidable cause unless it was contracted, suffered, or incurred while the Participant was engaged in a willful criminal enterprise or resulted from a deliberate self-inflicted injury.
- (b) Upon a Participant's retirement under this Section 9.06, the Participant shall be automatically entitled to receive a monthly retirement benefit, commencing on the first day of the month following his date of Disability, and continuing on the first day of each month thereafter during his lifetime. Such monthly retirement benefit shall be equal to (i) a benefit determined in the same manner as the monthly retirement benefit payable upon retirement at the Normal Retirement Date of the Participant, with Average Monthly Compensation and Credited Service determined as of the date of his Disability Retirement but reduced using the factors described in Article I for Early Retirement, or (ii) if the Disability Retirement commences prior to January 1, 1995, \$200 multiplied by his full Years of Service, if greater than (i) above. Upon the election of the Participant, any pension payable under this Section 9.06 may be paid in an optional method of retirement payment as provided in Section 7.01 hereof, subject to the limitations therein for Disability Retirement and subject to the spousal consent provisions of Article VI.
- (c) Benefits payable under this Section 9.06 shall be in lieu of any benefits payable under any other Section of this Plan; provided however, any loss of rights to benefits under this Section 9.06 shall not deprive a Participant of any benefits that he might otherwise be entitled to receive under the Plan.
- (d) If a Participant loses all rights to any benefits under this Section 9.06 because, prior to his Normal Retirement Date, his total and permanent Disability has ceased, and if such Participant resumes employment for the Employer immediately after the cessation of such

Disability, then automatically after such resumption of employment he shall resume participation in the Plan. The benefits to which such Participant will subsequently be entitled, however, will be reduced by an amount which is the Actuarial Equivalent of any benefits the Participant has received.

ARTICLE X

FUNDING

10.01 *Contributions By Participants*

No contributions by Participants will be required or permitted under the Plan.

10.02 *Contributions By Employer*

- (a) The cost of all benefits payable under the Plan will be borne by the Employer. The Employer shall establish and maintain a policy for funding such cost so that such policy causes the Plan to be funded consistent with Federal law. Contributions by the Employer shall be paid to a Trustee or Life Insurance Company at such times and in such amounts as shall be determined by the Board acting under the advice of an actuary, who shall be an actuary enrolled by the United States Government in accordance with Subtitle C of Title III of the Employee Retirement Income Security Act of 1974, as amended. All contributions shall be irrevocable and may be used only for the benefit of the Participants and their Contingent Annuitants, Spouses and/or Beneficiaries. The actuarial liabilities for benefits under the Plan that may be forfeited in the event of severance of employment, death, or for any other reason, shall be used in the determination of Employer Contributions made immediately following such forfeiture to effect a reduction in such contributions and shall in no event be applied to increase any of the benefits under the Plan.
- (b) In addition to its contributions, the Employer may elect to pay all the administrative expenses of the Plan and all fees and retainers of the Plan's Trustee, actuary, accountant, counsel, consultant, administrator, or other specialist so long as the Plan or Trust Fund remains in effect. If the Employer does not pay all or part of such expenses, the Trustee shall pay these expenses from the Trust Fund. All expenses directly relating to the investments of the Trust Fund, including taxes, brokerage commissions, and registration charges must be paid from the Trust Fund.

10.03 *Fund*

The Employer, in order to establish a fund for payment of benefits under the Plan, has entered into a Trust Agreement with the Trustee, whereby the contributions are held, invested and applied to the payment of benefits hereunder. The Trust Agreement shall contain such powers and reservations as to investments, reinvestment, control and disbursements of the funds, and such other provisions consistent with the provisions of the Plan and its nature and purposes as shall be agreed upon and set forth therein. The Trustee shall, in accordance with the terms of such agreement, accept and receive all sums of money paid to it from time to time by the Employer and shall hold, invest, reinvest, manage and administer such moneys and the increment, increase, earnings and income thereof as a fund for the exclusive benefit of the Participants and their Contingent Annuitants, Spouses and/or Beneficiaries. In no event shall it be possible at any time prior to the satisfaction of all liabilities, fixed or contingent, under the Plan for any part of the assets of the Trust Fund, whether principal or income, to be used for, or diverted to, purposes other than those stated herein. The Trustee shall not have the power to inquire into the correctness of the amounts tendered to it as required by the Plan, nor to enforce the payment of any contributions hereunder.

ARTICLE XI

ADMINISTRATION

11.01 *Assignment Of Administrative Authority*

The Board shall appoint a Committee the members of which shall be officers or other Employees, or any other individuals, who shall be appointed by and serve at the pleasure of the Board. A member may resign, by written resignation to the Board and Committee. Vacancies arising by virtue of resignation, death or otherwise, shall be filled by the Board. The members of the Committee shall exercise their duties on the Committee as fiduciaries, having due regard for the standards that a prudent man would exercise under similar circumstances. No member shall participate in the discussion or vote on any matter regarding his own benefit.

11.02 *Organization And Operation Of Committee*

The Committee shall hold meetings upon such notice, at such place or places and at such time or times, as the Committee may, from time to time, determine. The Committee shall act by a majority of its members at the time in office, and such action may be taken either by a vote at a meeting or in writing without a meeting. The Committee may authorize any one or more of its members to execute any document or documents on behalf of the Committee, in which event the Committee shall notify the Trustee in writing of such action and the name or names of its member or members so designated. Committee directions to the Trustee must be performed in a manner consistent with the terms of the applicable Trust Agreement. The Committee may adopt such bylaws and regulations as it deems desirable for the conduct of its affairs. It may appoint such agents who need not be members of the Committee, as it may deem necessary for the effective performance of its duties, and may delegate to such agents such powers and duties, whether ministerial or discretionary, as the Committee may deem expedient or appropriate. The compensation of such agents shall be fixed by the Committee within limits set by the Board. Any delegates appointed by the Committee pursuant to this Section 11.02 shall enjoy and be bound by the same powers and duties accorded to the Committee by Section 11.03.

11.03 *Powers And Duties*

The Committee shall administer the Plan in accordance with its terms and pursuant to uniform rules of procedure; it shall have full discretionary authority and responsibility for administration of the Plan. The Committee shall interpret the Plan and shall determine eligibility to participate and, all questions arising in the administration, interpretation, and application of the Plan. All disbursements of benefits under the Plan by the Trustee shall be made upon, and in accordance with, the written instructions of the Committee. The decisions by the Committee upon all matters within the scope of its authority shall be conclusive and binding on all persons.

11.04 *Records And Reports Of Committee*

The Committee shall keep a record of all its proceedings and acts, and shall keep all such books of account, records, and other data as may be necessary for proper administration of the Plan. The Committee shall notify the Board of any action taken by the Committee and, when required, shall notify any other interested person or persons.

11.05 *Payment Of Expenses*

The members of the Committee shall serve without compensation for services as such, but the Employer shall pay or reimburse the Committee for all expenses reasonably incurred by the Committee, including the compensation of its agents.

11.06 *Determination Of Benefits*

- (a) The Committee shall establish rules and procedures to be followed by the Participants, Spouses and Contingent Annuitants, in filing applications for benefits and for furnishing and verifying proofs necessary to establish age, Service, Credited Service, Average Monthly Compensation, and any other matters required in order to establish the right to benefits in accordance with the Plan.
- (b) The Committee shall receive all applications for benefits. Upon receipt by the Committee of such an application, it shall determine all facts which are necessary to establish the right of the applicant to benefits under the provisions of the Plan and the amount thereof as herein provided. Upon request, the Committee will afford any applicant the right of a hearing with respect to any finding of fact or determination.
- (c) To enable the Committee to perform its functions, the Employer shall supply full and timely information to the Committee of all matters relating to the retirement, death or other cause for termination of employment of all Participants and such other pertinent facts as the Committee may require; and the Committee shall advise the Trustee of such of the foregoing facts as may be pertinent to the Trustee's administration of the Fund.

11.07 *Additional Committee Duties*

The Committee shall prepare and distribute to the Participants, at the expense of the Employer, and in such a manner as it shall deem appropriate, information concerning the Plan.

11.08 *Reliance On Reports*

Members of the Committee and the Employer shall be entitled to rely upon all tables, valuations, certificates and reports furnished by any actuary designated by the Board, upon all certificates and reports made by an accountant selected or approved by the Board, upon all opinions by any counsel selected or approved by the Committee and upon all opinions by any counsel selected or approved by the Board, and the members of the Committee and the Employer and its officers and the Trustee shall be fully protected in respect to any action taken or suffered in good faith reliance upon the advice or opinion of any such actuary, accountant, physician or counsel, provided such actuary, accountant, physician or counsel was selected in a prudent manner, and all action so taken or suffered shall be conclusive upon each of them and upon all Participants, Contingent Annuitants, Spouses and/or Beneficiaries.

11.09 *Liability And Indemnification*

The members of the Committee shall act as fiduciaries with respect to all of the provisions of the Plan, except with regard to the holding, investing, reinvesting and managing the assets of the Fund, and shall act with respect to all matters within their scope of authority as prudent men would act under like circumstances. The Trustee designated hereof shall be a fiduciary or fiduciaries solely with regard to the holding, investing, reinvesting and managing of the assets of the Fund. Nevertheless, the Employer shall indemnify the members of the Committee with regard to any

expense the Trustee may incur in defending a suit arising out of the performance of the duties imposed upon them by this Plan or any liability that may arise with respect to the payment of any judgment or settlement arising from any responsibility imposed by this Plan, except for any willful misconduct or any act done in bad faith. The Employer shall also indemnify any member of the Board and any other Employee of the Employer with regard to any expense they may incur in defending a suit arising out of the performance of the duties imposed upon them by this Plan or any liability that may arise with respect to the payment of any judgment or settlement from any responsibility imposed by this Plan, except for any willful misconduct or any act done in bad faith.

11.10 *Limitation Of Powers Of Committee*

The Committee shall have no power in any way to modify, alter, add to or subtract from any provision of the Plan without formal Plan amendment. Further, actions taken or instructions given by the Committee shall be uniform in their nature and applicable to all Participants in a non-discriminatory manner.

11.11 *Procedure For Claiming Benefits Under The Plan*

- (a) Claims for benefits under the Plan made by a Participant or Beneficiary covered by the Plan must be submitted in writing to the Committee. Approved claims will be processed and instructions issued to the Trustee authorizing payments as claimed.

If a claim is denied in whole or in part, the Committee shall notify the claimant of its decision by written notice, in a manner calculated to be understood by the claimant. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a description of any additional material or information necessary to perfect the claim, and an explanation of why such material or information is necessary;
- (iv) an explanation of the Plan's claim review procedure; and
- (v) a statement of the claimant's right to bring a civil action in accordance with section 502(a) of ERISA if the claimant's claim is denied upon review.

Such notification shall be given within 90 days after the claim is received by the Committee. This period may be extended for another 90 days if the claimant is notified that the extension is necessary due to matters beyond the control of the Plan, before the end of the original 90-day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

- (b) Upon denial of a claim in whole or in part, a claimant or his duly authorized representative shall have the right to submit a written request to the Committee for a full and fair review of the denied claim, to submit written comments, documents, records, and other information relating to the claim, and to be provided, upon request and free of charge, access to, and copies of, all documents, records and other information relevant to the claimant's claim for benefits. A request for review of a claim must be submitted within 60 days of receipt by the claimant of written notice of the denial of the claim.

The Committee shall advise the claimant of the results of the review within 60 days after receipt of the written request for review. This period may be extended for another 60 days if the Committee determines that special circumstances require an extension of time for processing the request and if written notice of such extension and circumstances is given to

such claimant within the initial 60 day period. Any notice for an extension will explain the reason for the extension and the date by which the Committee expects to rule on the claim.

In the event an appeal is denied, the claimant will be notified in writing. The Committee shall set forth in the notice:

- (i) the specific reason or reasons for the denial of the claim;
- (ii) the specific references to the pertinent Plan provisions on which the denial is based;
- (iii) a statement of the claimant's right to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the claimant's claim for benefits; and
- (iv) a statement of the claimant's right to bring a civil action in accordance with Section 502(a) of ERISA.

The decision of the Committee by majority vote shall be final and binding upon any and all claimants, including but not limited to Participants and their Beneficiaries, and any other individuals making a claim through or under them.

ARTICLE XII

AMENDMENT AND TERMINATION OF THE PLAN

12.01 *Amendment Of Plan*

- (a) The Employer shall, by written resolution of the Board, have the right at any time, and from time to time, to amend, in whole or in part, any or all of the provisions of the Plan. However, no such amendment shall authorize or permit any part of the Fund (other than such part as is required to pay taxes and administration expenses) to be used or diverted to purposes other than for the exclusive benefit of the Participants or their Contingent Annuitants, Spouses or Beneficiaries; no such amendment shall cause any reduction in the amount of benefits which at the time of such amendment shall have accrued for the Participants or their Contingent Annuitants, Spouses or Beneficiaries, or cause or permit any portion of the Fund to revert to or become property of the Employer, except as provided in Section 12.02 hereof in the event of the termination of the Plan; and no such amendment which affects the rights, duties or responsibilities of a Trustee may be made without the affected party's written consent. No such amendment shall have retroactive effect except that an amendment adopted during a Plan Year, or within two and one-half ($2\frac{1}{2}$) months after the close of the Plan Year, which does not reduce the Accrued Benefit of any Participant may be made effective retroactively, but in no event shall the retroactive date of the effect of such amendment be earlier than the first day of the Plan Year.
- (b) Furthermore, no amendment shall be made to the vesting provisions of Article IX of the Plan which has the effect of reducing the nonforfeitable benefit to which the Participant would have been entitled to in accordance with the provisions of Article IX if he had terminated his employment with the Employer on the date on which such amendment is to be effective, nor shall any amendment affecting the vesting provisions in Article IX of the Plan be made unless any Participant who has completed three (3) Years of Service on the date on which such amendment is to be effective, is allowed to elect to have this nonforfeitable percentage computed under the prior vesting schedule. For Participants who do not have one (1) Hour of Service in any Plan Year beginning after December 31, 1988, the preceding sentence shall be applied by substituting "five (5)" for "three (3)" Years of Service.

The period during which the election may be made shall commence with the date the amendment is adopted or deemed to be made and shall end on the latest of:

- (i) sixty (60) days after the amendment is adopted;
 - (ii) sixty (60) days after the amendment becomes effective; or
 - (iii) sixty (60) days after the Participant is issued written notice of the amendment by the Committee.
- (c) Any amendment to the Plan shall become effective upon execution of an appropriate written instrument, undertaken pursuant to authorization by the Board, except that for the purposes of this Section 12.01, should the top heavy provisions of Section 15.01 become operative, the vesting schedule in Section 9.02 shall be deemed to have been amended.

12.02 *Termination Of Plan*

- (a) The Trust established under Article X hereof, shall be an irrevocable Trust and the Employer expects to continue the Plan indefinitely. However, necessarily, the Employer by action of the Board reserves the right to terminate the Plan at any time: If the Employer terminates the Plan, or it is otherwise terminated, the Trustee shall continue to administer the Fund in accordance with the provisions hereof. Under no conditions, however, will any portion of the Fund at any time revert to or become the property of the Employer except as provided in

Subsection (e) of this Section 12.02. Upon termination or partial termination of the Plan, the rights of each Participant involved in such termination to benefits accrued to the date of such termination or partial termination are nonforfeitable.

- (b) However, any termination (other than a partial termination or an involuntary termination pursuant to Section 4042 of ERISA) must satisfy the requirements and follow the procedures outlined herein and in Section 4041 of ERISA for a Standard Termination or a Distress Termination. Upon any termination (full or partial), all amounts shall be allocated in accordance with the provisions hereof and the Accrued Benefit, to the extent funded as of such date, of each affected Participant shall become fully vested and shall not thereafter be subject to forfeiture.
- (c) *Standard Termination Procedure*
 - (i) The Administrator shall first notify all "affected parties" (as defined in Section 4001(a)(21) of ERISA) of the Employer's intention to terminate the Plan and the proposed date of termination. Such termination notice must be provided at least sixty (60) days prior to the proposed termination date. However, in the case of a standard termination, it shall not be necessary to provide such notice to the Pension Benefit Guaranty Corporation (PBGC). As soon as practicable after the termination notice is given, the Administrator shall provide a follow-up notice to the PBGC setting forth the following:
 - (A) a certification of an enrolled actuary of the projected amount of the assets of the Plan as of the proposed date of final distribution of assets, the actuarial present value of the "benefit liabilities" (as defined in Section 4001(a)(16) of ERISA) under the Plan as of the proposed termination date, and confirmation that the Plan is projected to be sufficient for such "benefit liabilities" as of the proposed date of final distribution;
 - (B) a certification by the Administrator that the information provided to the PBGC and upon which the enrolled actuary based his certification is accurate and complete; and
 - (C) such other information as the PBGC may prescribe by regulation. The certification of the enrolled actuary and of the Administrator shall not be applicable in the case of a plan funded exclusively by individual insurance contracts.
 - (ii) No later than the date on which the follow-up notice is sent to the PBGC, the Administrator shall provide all Participants and Beneficiaries under the Plan with an explanatory statement specifying each such person's "benefit liabilities", the benefit form on the basis of which such amount is determined, and any additional information used in determining "benefit liabilities" that may be required pursuant to regulations promulgated by the PBGC.
 - (iii) A standard termination may only take place if at the time the final distribution of assets occurs, the Plan is sufficient to meet all "benefit liabilities" determined as of the termination date.
- (d) Upon termination of the Plan, benefits of missing Participants shall be treated in accordance with Section 4050 of ERISA.

12.03 *Limit For 25 Highest Paid Employees*

- (a) In years beginning on or after January 1, 1992 and in the event of Plan termination, the benefit of any Highly Compensated active or former Employee is limited to a benefit that is nondiscriminatory under Section 401(a)(4).

For Plan Years beginning on or after January 1, 1992, benefits distributed to any of the twenty-five (25) most Highly Compensated active and former Highly Compensated Employees are restricted such that the annual payments are no greater than an amount equal to the payment that would be made on behalf of the Employee under a single life annuity that is the Actuarial Equivalent of the sum of the Employee's Accrued Benefit and the Employee's other benefits under the Plan.

The preceding paragraph shall not apply if:

- (i) after payment of the benefit to an Employee described in the preceding paragraph, the value of plan assets equals or exceeds one hundred ten percent (110%) of the value of current liabilities, as defined in Code Section 412(1)(7), or
- (ii) the value of the benefits for an Employee described above is less than one percent (1%) of the value of current liabilities.

For purposes of this Section, benefit includes loans in excess of the amount set forth in Code Section 72(p)(2)(a), any periodic income, any withdrawal values payable to a living Employee, and any death benefits not provided for by insurance on the Employee's life.

- (b) Notwithstanding the otherwise applicable restrictions on distributions of benefits incident to early Plan termination, a Participant's otherwise restricted benefit may be distributed in full upon depositing with an acceptable depository property having a fair market value equal to one hundred twenty-five percent (125%) of the amount which would be repayable had the Plan terminated on the date of the lump sum distribution. If the market value of the property held by the depository falls below one hundred ten percent (110%) of the amount which would be repayable if the Plan were then to terminate, additional property necessary to bring the value of the property held by the depository up to one hundred twenty-five percent (125%) of such amount will be deposited.

ARTICLE XIII

PARTICIPATING COMPANIES

13.01 *Adoption By Other Entities*

Any corporation or other business entity may, by resolution of its own governing body, and with the written approval of the Board, adopt the Plan and thereby become an Employer. Notwithstanding the adoption of the Plan by other entities, the Plan will be administered as a single plan and all Plan assets will be available to pay benefits to all Participants under the Plan.

13.02 *Actuarial Valuation*

The Committee shall have the Plan's actuary make an annual actuarial valuation with respect to the Plan to determine the contribution as required in accordance with Article X.

13.03 *Right To Withdraw (Plan Spinoff)*

Each Employer having adopted the Plan shall have the right as of the last day of any month to withdraw from the Plan and/or Trust Agreement by delivering to the Board, the Committee and the Trustee written notification from its own governing body of such action and setting forth the date as of which the withdrawal shall be effective.

ARTICLE XIV

MISCELLANEOUS

14.01 *Headings And Subheadings*

The headings and subheadings in the Plan have been inserted for convenience of reference only and are to be ignored in any construction of the provisions hereof.

14.02 *Gender And Number*

Wherever any words are used herein in the masculine gender they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply.

14.03 *Participants' Rights: Acquittance*

Neither the establishment of the Plan, nor any modification thereof, nor the creation of the Fund, nor the payment of any benefits, shall be construed as giving to a Participant or other person any legal or equitable right against the Employer, or any officer or Employee thereof, or a Trustee, or the Committee, except as herein provided. Under no circumstances shall the terms of employment of a Participant be modified or in any way affected hereby.

14.04 *Receipt Or Release*

Any payment to a Participant, Contingent Annuitant, Spouse or Beneficiary or to their legal representatives, in accordance with the provisions of the Plan, shall to the extent thereof be in full satisfaction of all claims hereunder against the Trustee, the Committee and the Employer, any of whom may require such Participant, Contingent Annuitant, Spouse, Beneficiary, or legal representative, as a condition precedent to such payment, to execute a receipt and release therefor in such form as shall be determined by a Trustee, the Committee or the Employer as the case may be.

14.05 *Spendthrift Clause*

Except insofar as may be contrary to any applicable law, no payment of any benefit under the Plan shall be assignable and no such payment or contribution shall be subject to the claims of any creditor. The preceding sentence shall not apply to the creation, assignment or recognition of a right to any benefit payable with respect to a Participant, pursuant to a qualified domestic relations order as defined in Section 414(p) of the Code, or any domestic relations order entered before January 1, 1985. In any event, benefits shall be paid from the Plan in accordance with the applicable requirements of such qualified domestic relations order. The Committee shall set forth in writing, reasonable procedures for determining the qualified status of a 'domestic relations order and for administering distributions under such qualified order.

14.06 *Payments To Legally Incompetent*

If any Participant, Contingent Annuitant, Spouse or Beneficiary is a minor or is, in the judgment of the Committee, otherwise legally incapable of personally receiving and giving a valid receipt for any payment due him under the Plan, the Committee may, unless and until claim shall have been made by a duly appointed guardian or committee of such person, make such payment or any part thereof to such person's Spouse, child, parent, brother or sister or other person deemed by the Committee to have incurred expense for or assumed responsibility for the expenses of such person.

Any payment so made shall be a complete discharge of any liability under the Plan for such payment.

14.07 *Delegation Of Authority By The Board*

Whenever the Employer, under the terms of the Plan, is permitted or required to do or perform any act or matter or thing, it shall be done and performed by any person thereunto duly authorized by the Board.

14.08 *Distribution Of Benefits Under Plan*

No benefits shall be distributed under the Plan except (a) in the event of the retirement of a Participant as provided in Article IV hereof, (b) in the event of death, disability, or other termination of employment of a Participant before retirement for any cause as provided in Article VI and Article IX hereof, or (c) in the event that a court of competent jurisdiction compels payment of benefits from this Plan pursuant to an order which the Committee determines to be a qualified domestic relations order, as described in Code Section 414(p). The Committee shall establish rules to determine whether a court order is a qualified domestic relations order.

14.09 *Divestment Of Benefits*

No payment of benefits provided under the Plan shall be forfeited, when due, because of any action of a Participant or his Contingent Annuitant, Spouse or Beneficiary, except for the lack of fulfillment of any requirement under any of the terms of the Plan for the completion of any specified period of Service, Credited Service or the attainment of any specified age, for qualification for such benefits.

14.10 *Construction Of Plan*

The Plan shall be governed and construed under the laws of the State of New York to the extent not preempted by ERISA.

14.11 *Execution Of Plan*

The Plan may be executed in any number of counterparts, each of which may be deemed the original although the others shall not be produced.

14.12 *Deductibility Of Contributions*

Each Employer Contribution is specifically conditioned on the deductibility of the contribution under Code Section 404, and to the extent such contribution, or any part thereof, is disallowed, the contribution, or any part thereof that is disallowed, shall be returned to the Employer within one year after the date of disallowance.

14.13 *Lost Beneficiary Or Participant*

If a benefit is forfeited because the Participant, Spouse, Contingent Annuitant or Beneficiary cannot be found, such benefit will be reinstated if a claim is made by the Participant, Spouse, Contingent Annuitant or Beneficiary. In the event that any check or final notice of payment of benefits under the Plan remains outstanding at the expiration of six months from the date of mailing of such check or notice to the last known address of the payee, the Committee shall notify the Trustee to stop payment on all outstanding checks and to suspend the issuance of further checks or notice, if any, to such payee. If, during the three-year period (or such other period as specified in the Trust Agreement) from the date of mailing of the first such check or of notice that

a benefit is due under the Plan, the Committee cannot establish contact with the payee by taking such action as it deems appropriate and the payee does not make contact with the Committee, any benefits to which such payee is entitled shall be forfeited. Any benefit so forfeited shall be restored if a claim is made for the unpaid benefit at any subsequent date and the Plan has not been terminated as of such date. Contributions required to be made in accordance with Article X shall reflect such forfeitures and restoration in the same manner as expense gains and losses are reflected in the funding method used by the Plan.

14.14 *Duplication Of Benefits*

- (a) If a Participant is entitled to any retirement income or other benefits attributable to Employer Contributions from any other qualified defined benefit retirement plan or annuity maintained by the Employer, the benefits to which such Participant may be entitled under this Plan shall be reduced by an amount equal to such other retirement income or benefits, to the extent such benefits are attributable to concurrent periods of employment.
- (b) In the determination of any benefit to which a Participant or Beneficiary will be entitled under the Plan, adjustments shall be made to reflect any amounts previously distributed under the Plan and to reflect any amounts required to be paid to the Participant's Spouse or former Spouse under any law or qualified domestic relations order as described in Code Section 414(p).

14.15 *Merger Or Consolidation*

The Plan may be merged or consolidated with, or its assets or liabilities transferred in whole or in part to, another Plan which meets the requirements of Sections 401(a) and 501(a) of the Code only if each Participant would, if either the Plan or the other plan terminated immediately after the merger, consolidation or transfer, then receive a benefit which is equal to or greater than the benefit he would have been entitled to receive immediately before the merger, consolidation or transfer if the Plan then terminated.

14.16 *Return Of Contributions As A Result Of Mistake Of Fact*

Notwithstanding any other provision to the contrary the general prohibition against diversion of plan assets does not preclude the return of contributions made by an Employer to the Plan if the contribution was made by reason of a mistake of fact and the return to the Employer of the amount involved is made within one year of the mistaken payment of the contribution.

14.17 *Direct Rollover Of Eligible Rollover Distributions*

- (a) With respect to distributions made on and after January 1, 1993, a Distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an Eligible Rollover Distribution paid, in a direct rollover, directly to an Eligible Retirement Plan specified by the Distributee, subject to the limitations and exceptions granted in proposed and temporary regulations issued under Section 401(a)(31) of the Code and other guidance issued for reliance by the Internal Revenue Service.

The Committee, in establishing administrative procedures and plan distribution rules, shall comply with the provisions of Section 401(a)(31) of the Code and proposed and temporary as well as any future final regulations thereunder, including any guidance issued for reliance by the Internal Revenue Service.

- (b) *Definitions.*
 - (i) *Eligible Rollover Distribution* : An Eligible Rollover Distribution is any distribution of all or any portion of the balance to the credit of the Distributee, except that an Eligible

Rollover Distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Distributee or the joint lives (or joint life expectancies) of the Distributee and the Distributee's designated Beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; effective January 1, 1999, any hardship distribution described in Section 401(k)(2)(B)(i)(IV) of the Code and the portion of any distribution that is not includible in gross income (determined without regard to the exclusion for net unrealized appreciation with respect to employer securities).

Effective for distributions after December 31, 2001,

- (1) an Eligible Rollover Distribution does not include any hardship distribution, and
 - (2) a portion of a distribution shall not fail to be an Eligible Rollover Distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code which agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.
- (ii) *Eligible Retirement Plan* : An Eligible Retirement Plan is an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, an annuity plan described in Section 403(a) of the Code, or a qualified trust described in Section 401(a) of the Code, that accepts the Distributee's Eligible Rollover Distribution. However, in the case of an Eligible Rollover Distribution to the surviving Spouse, an Eligible Retirement Plan is an individual retirement account or individual retirement annuity.

Effective for distributions after December 31, 2001, an Eligible Retirement Plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by an eligible employer described in Section 457(e)(1)(A) of the Code.

The definition of Eligible Retirement Plan shall also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the Alternate Payee under a qualified domestic relations order, as defined in Code Section 414(p).

- (iii) *Distributee* : A distributee includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse or former Spouse who is an alternate payee under a qualified domestic relations order as defined in Section 414(p) of the Code, are Distributees with regard to the interest of the Spouse or former Spouse.
- (iv) *Direct Rollover* : A Direct Rollover is a payment by the Plan to the Eligible Retirement Plan specified by the Distributee.

14.18 *Qualified Domestic Relations Orders*

- (a) *Qualified Domestic Relations Order*
 - (i) A Qualified Domestic Relations Order (hereinafter referred to as "QDRO") is a Domestic Relations Order which creates or recognizes the existence of an Alternate Payee's right to, or assigns to an Alternate Payee the right to, receive all or a portion of the benefits payable with respect to a Participant under the Plan, and which the Committee has determined meets the requirements of Paragraphs (ii) and (iii).

- (ii) A Domestic Relations Order meets the requirements of a QDRO only if the order clearly specifies
 - (A) the name and the last known mailing address (if any) of the Participant and the name and mailing address of each Alternate Payee covered by the order;
 - (B) the amount or percentage of the Participant's benefits to be paid by the Plan to each such Alternate Payee, or the manner in which such amount or percentage is to be determined;
 - (C) the number of payments or period to which such order applies; and
 - (D) that the order applies to this Plan.
- (iii) A Domestic Relations Order meets the requirements of a QDRO only if the order
 - (A) does not require the Plan to provide any type or form of benefits, or any option, not otherwise provided under the Plan;
 - (B) does not require the Plan to provide increased benefits (determined on the basis of actuarial value); and
 - (C) does not require the payment of benefits to an Alternate Payee which are required to be paid to another Alternate Payee under another Domestic Relations Order previously determined to be a QDRO.
- (iv) In the case of any payment before a Participant has separated from service, a QDRO shall not be treated as failing to meet the requirements of Paragraph (iii)(A) above solely because the order requires the payment of benefits to an Alternate Payee
 - (A) on or after the date on which the Participant attains(or would have attained) the Earliest Retirement Age;
 - (B) as if the Participant had retired on the date such payment is to begin under such order; and
 - (C) in any form in which such benefits may be paid under the Plan to the Participant (other than in the form of a joint and survivor annuity with respect to the Alternate Payee and his or her subsequent spouse).
- (v) For purposes of Paragraph (iv), Earliest Retirement Age means the earlier of
 - (A) the date on which the Participant is entitled to a distribution under the Plan; or
 - (B) the later of (1) the date the Participant attains age 50 or (2) the earliest date on which the Participant could begin receiving benefits under the Plan if such Participant separated from service.

Notwithstanding any provisions of the Plan to the contrary, for purposes of Subparagraph (A) above, a distribution to an Alternate Payee may be made prior to the date on which the Participant is entitled to a distribution under Section 4.03 if requested by the Alternate Payee to the extent such distribution is permitted under the QDRO. Nothing in this provision shall permit the Participant to receive a distribution at a date otherwise not permitted under Section 4.03 nor shall it permit the Alternate Payee to receive a form of payment not permitted in Section 7.01.

(b) *Procedures*

Upon receipt of a Domestic Relations Order, the Committee shall take, or cause to be taken, the following actions:

- (i) The Committee shall promptly notify the Participant, each Alternate Payee covered by the order and each representative for these parties of the receipt of the Domestic Relations Order. Such notice shall include a copy of the order and these QDRO Procedures for determining whether such order is a QDRO.
- (ii) Once a Domestic Relations Order has been received no distributions will be made from the Plan to the Participant upon a subsequent termination until after the payment to the Alternate Payee has been determined, unless the Committee determines the order not to be a QDRO.
- (iii) Within a reasonable period after receipt of a Domestic Relations Order, the Committee shall determine whether it is a QDRO and shall notify the parties indicated in Paragraph (i) of such determination. Such notice shall indicate whether the benefits payable to the Alternate Payee in accordance with the QDRO are subject to a previously existing QDRO.
- (iv) Pending the Committee's determination of whether a Domestic Relations Order is a QDRO, if payments are due to be paid to the Participant, the Committee shall withhold payment and separately account for the amounts otherwise payable to the Alternate Payee during such period if the order is subsequently determined to be a QDRO (hereinafter referred to as the "segregated amounts"). If, within the 18-month period beginning with the date the first payment would have been required to be made under the Domestic Relations Order, the Committee determines the order to be a QDRO, the Committee shall pay the segregated amounts, including any interest thereon, to the person or persons entitled thereto. If, within such 18-month period, the Committee determines an order is not a QDRO or the Committee fails to reach a decision, the Committee shall pay the segregated amounts to the Participant. If, after the 18-month period, the Committee subsequently determines that the order is a QDRO, the Committee shall pay benefits subsequent to such determination in accordance with the order. If action is taken in accordance with this Subsection (b), the Plan's obligation to the Participant and each Alternate Payee shall be discharged to the extent of any payment made pursuant to the QDRO.
- (v) In determining the segregated amounts in accordance with Paragraph (iv), the Participant's vested interest shall be prorated between the Participant and Alternate Payee and the entire amount of any nonvested interest will be credited to the Participant and not taken into consideration in making such determination. Any future accruals will be credited to the Participant and not the Alternate Payee.
- (vi) Upon a determination by the Committee that a Domestic Relations Order is a QDRO, the Committee shall arrange for benefits to be paid to the Alternate Payee in accordance with such order and Sections 4.03 and 7.01 as if the Participant had terminated employment at such time.
- (vii) If benefits are not immediately distributable to the Alternate Payee, such amount shall be separately accounted for until such time as the distribution is made.
- (viii) The Alternate Payee shall be treated as a Beneficiary for all purposes of the Plan. The foregoing provisions are effective for QDROs entered into on or after January 1, 1985, except that, in the case of a Domestic Relations Order entered into before January 1, 1985, the Committee (i) may treat such order as a QDRO even though such order fails to meet the requirements of Subsections (a)(ii) and (iii) above, and (ii) must treat such order as a QDRO if benefits were being paid pursuant to such order on January 1, 1985.

ARTICLE XV

TOP-HEAVY PROVISIONS

15.01 Top Heavy Provisions

(a) For purposes of this Section, the following terms shall have the meanings indicated below:

(i) **"Aggregation Group "** means either:

- (A) **A "Permissive Aggregation Group"** . The Committee may also include any other qualified plan not required to be included in the Required Aggregation Group, provided the resulting group, taken as a whole, would continue to satisfy the provisions of Sections 401(a)(4) and 410 of the Code. Such group shall be known as a Permissive Aggregation Group.
- (B) **A "Required Aggregation Group"**. In determining a Required Aggregation Group hereunder, each qualified plan of the Employer or an Affiliated Employer in which a Key Employee participates and each other plan of the Employer or an Affiliated Employer, including terminated plans maintained within the one-year period ending on the Determination Date, which enables any plan in which a Key Employee participates to meet the requirements of Sections 401(a)(4) or 410 of the Code will be required to be aggregated. Such group shall be known as a Required Aggregation Group. Notwithstanding the foregoing, the Required Aggregation Group will not include "safe harbor" plans described in Section 401(k)(12) and 401(m)(11) of the Code.

Solely for purposes of determining if the Plan or any other qualified plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits of Non Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or Affiliated Employers or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.

In no event shall this Plan be considered a top heavy plan if it is part of a Required Aggregation Group or a Permissive Aggregation Group that is not a top heavy group.

Only those plans of the Employer or Affiliated Employers in which the determination dates fall within the same calendar year shall be aggregated in order to determine whether such plans are top heavy plans.

- (ii) **"Determination Date"** means the last day of the preceding Plan Year, except that for the first Plan Year the Determination Date is the last day of that Plan Year.
- (iii) **"Employee", "Former Employee", "Key Employee" and "Non Key Employee"** shall also include Beneficiaries of such an employee.
- (iv) **"Key Employee"** means any employee or former employee (including any deceased employee) of the Employer or an Affiliated Employer who at any time during the Plan Year containing the Determination Date for the Plan Year in question is:
 - (A) An officer of the Employer or Affiliated Employer, if such individual received Section 415 Compensation of more than \$130,000 as adjusted. No more than 50 employees (or, if lesser, the greater of 3 employees or 10% of the employees) shall be treated as officers (exclusive of employees described in Section 414(q)(8) of the Code).

- (B) A 5% owner of the Employer or an Affiliated Employer. A "5% owner" means a person owning (or considered as owning, within the meaning of Section 318 of the Code) more than 5% of the outstanding stock of the Employer or an Affiliated Employer, or stock possessing more than 5% of the total combined voting power of all stock of the Employer or an Affiliated Employer (or having more than 5% of the capital or profits interest in any Employer or Affiliated Employer that is not a corporation determined under similar principles).
- (C) A 1% owner of the Employer or an Affiliated Employer having Section 415 Compensation of more than \$150,000. A "1% owner" means any person who would be described in paragraph (a)(iv)(B) above if "1%" were substituted for "5%" in each place where it appears in paragraph (a)(iv)(B).

A Key Employee shall be determined in accordance with the provisions of Section 416(i) of the Code.

- (v) **"Non Key Employee"** means an employee who is not a Key Employee, including any employee who is a former Key Employee.
- (vi) **"Valuation Date"** means the date used to calculate the value of accrued benefits or account balances for purposes of determining the top heavy ratio specified in paragraph (b) below.

For purposes of this Plan, the Valuation Date shall be the valuation date used for computing the Plan's minimum funding requirements under Section 412 of the Code. For each other plan, the Valuation Date shall be, subject to Section 416 of the Code, the most recent Valuation Date which falls within or ends within the twelve consecutive months ending on the applicable determination date for such plan.

(b) **Top Heavy Plan**

The Plan shall be deemed a top heavy plan for a Plan Year if, as of the Valuation Date preceding the applicable Determination Date, the sum of (1) the present value of accrued benefits of Key Employees under this Plan and all other defined benefit plans in the Aggregation Group, and (2) the account balances of Key Employees under all defined contribution plans in the Aggregation Group exceeds 60% of the sum of (3) the present value of accrued benefits of all Participants under this Plan and all other defined benefit plans in the Aggregation Group (but excluding Participants who are former Key Employees); and (4) the account balances of all Participants under all defined contribution plans in the Aggregation Group.

For purposes of this test, the following rules shall apply:

- (i) Subject to subparagraph (ii) below, any distributions from this Plan or any other plan in the Aggregation Group, and any accrued benefit distributed from any other plan in the Aggregation Group during the one-year period ending on the Determination Date (in the case of any distribution made for a reason other than separation from service, death or disability, the five-year period ending on the Determination Date) shall be taken into consideration.
- (ii) The benefits of and distributions to all former employees who have not been credited with at least one Hour of Service during the one-year period ending on the Determination Date shall be disregarded, provided, however, that if such former Employee again completes an Hour of Service with the Employer after such one-year period, such former Employee's accounts shall be taken into consideration.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall accrue a Minimum Benefit as provided by this Plan.

Notwithstanding any provision of this paragraph (ii) to the contrary, in any Plan Year in which this Plan is a top heavy Plan, each Non-Key Employee who is also covered under a defined contribution plan of the Employer, shall have credited to his defined contribution plan account a minimum Employer contribution equal to the minimum contribution provided by such defined contribution plan; however, in no event shall the minimum Employer contribution be less than 5% of such Participant's Section 415 Compensation. No Minimum Benefit shall accrue under this Plan.

- (iii) If an Employee is a Non Key Employee for the Plan Year containing the Determination Date, but such individual was a Key Employee during any previous Plan Year, the value of his or her benefits and distributions shall not be taken into consideration.
- (iv) Solely for purposes of determining if the Plan or any other plan in the Required Aggregation Group is a top heavy plan for a Plan Year, the accrued benefits under any defined benefit plans of Non Key Employees shall be determined for Plan Years beginning after 1986 under the method, if any, which is uniformly applied for accrual purposes under all defined benefit plans maintained by the Employer or an Affiliated Employer or, if there is no such method, as if such benefit accrued not more rapidly than under the slowest accrual rate permitted under Section 411(b)(1)(C) of the Code.
- (v) The determination of account balances under all defined contribution plans in the Aggregation Group shall be increased for contributions due as of the Determination Date to the extent required under Section 416 of the Code.
- (vi) The determination of the present value of accrued benefits under all defined benefit plans in the Aggregation Group shall be based on the interest rate and mortality table specified in Section 1.02.
- (vii) Distributions, rollovers and trust to trust transfers shall be taken into consideration to the extent required under Section 416 of the Code.
- (viii) "Deductible employee contributions" (within the meaning of Section 501(c)(18)(D) of the Code) contributed to any plan in the Aggregation Group shall not be taken into consideration.

The calculation of the top heavy ratio shall be made in accordance with the provisions of Section 416 of the Code.

- (c) Notwithstanding any other provision of the Plan to the contrary, for any Plan Year in which the Plan is deemed to be a top heavy plan, the following provisions shall apply:
 - (i) Minimum Vesting

Any Participant who completes an Hour of Service in a Plan Year in which the Plan is deemed to be a top heavy plan shall have a nonforfeitable interest in a percentage of his or her Accrued Benefit determined by multiplying the Accrued Benefit by the applicable percentage from the following schedule:

Years of Vesting Service	Vested Percentage
Less than 3 years	0%
3 or more years	100%

Furthermore, if the vesting schedule under the Plan for any Plan Year shifts into or out of the above schedule because of the Plan's top heavy status, such shift shall be regarded as an amendment to the Plan's vesting schedule.

The provisions of this paragraph (c)(i) shall not be applied to reduce the Participant's vested percentage computed in accordance with the provisions of the Plan.

(ii) **Minimum Benefit**

Each Participant who is a Non-Key Employee shall have an Accrued Benefit calculated as of the last day of the top heavy Plan Year or, if earlier, as of his or her Severance from Service Date occurring during such Plan Year, at least equal to the product of (A) 2% of his or her Section 415 Compensation (as defined in Section 415(c) of the Code) from an Employer or Affiliated Employer during the five consecutive years for which the Participant had the highest Compensation, and (B) his or her years of Benefit Service up to a maximum of ten years. For purposes of this paragraph (ii), years of Benefit Service shall not include Plan Years during which the Plan is not a top heavy plan nor a Plan Year in which no Key or former Key Employee benefits under the Plan.

For purposes of this Plan, the minimum annual retirement benefit means a benefit payable annually in the form of a single life annuity (with no ancillary benefits) beginning at a Participant's Normal Retirement Date.

If a Non-Key Employee participates in a defined contribution plan included in the Aggregation Group, the minimum benefit shall be provided under this Plan.

- (iii) In any Plan Year that the Plan ceases to be top heavy, the above provisions shall no longer apply, except that the portion of a Participant's Accrued Benefit which was vested pursuant to paragraph (i) above shall remain vested.

**FIRST AMENDMENT TO THE
WATTS WATER TECHNOLOGIES, INC. PENSION PLAN**

WHEREAS, Watts Water Technologies, Inc., formerly known as Watts Industries, Inc. (the "Sponsoring Employer"), established the Watts Water Technologies, Inc. Pension Plan (the "Plan"), formerly known as the Watts Industries, Inc. Pension Plan, effective January 1, 1985 for the benefit of Eligible Employees; and

WHEREAS, the Sponsoring Employer has amended and restated the Plan from time to time, most recently effective January 1, 2006; and

WHEREAS, the Sponsoring Employer reserves the right to amend the Plan pursuant to Section 13.01 of the Plan; and

WHEREAS, the Sponsoring Employer desires to amend the Plan effective January 1, 2008 to: (i) reflect certain required changes mandated by the Pension Protection Act of 2006 ("PPA"); (ii) adopt an optional provision permitted pursuant to PPA (relating to phased retirement); and (iii) reflect other changes (relating to the hourly benefit rate and eligibility).

NOW THEREFORE, in consideration of the foregoing, the Plan is hereby amended as set forth herein effective January 1, 2008, except where noted.

1. Section 1.02(b) of the Plan shall be amended effective January 1, 2008 as follows:

"(b) For purposes of Section 8.05, 12.01, 12.02, or for a form of payment that decreases during the life of the Participant merely because of the cessation or reduction of Social Security supplements, and for any lump sum distribution date occurring on or after January 1, 2008, Actuarial Equivalent will be determined by using the mortality table defined in Code Section 417(e)(3), and using an interest rate based on the adjusted first, second and third segment rates determined under Code Sections 417(e)(3)(C) and (D) for the November preceding the first day of the Plan Year in which the distribution date occurs, as prescribed by the Internal Revenue Service for purposes of calculating present value and determining the amount of any single-sum distribution. For purposes of determining the interest rate for Plan Years beginning in 2008, 2009, 2010 and 2011, Code Section 417(e)(3)(D)(iii) is applicable."

2. Effective January 1, 2008, Section 1.15 of the Plan shall be amended to add the following sentence to the end thereof:

"Effective January 1, 2008, the term 'Employer' includes Calflex Manufacturing, Inc."

3. Effective January 1, 2008, Section 3.01(b) of the Plan shall be amended to add a new subsection (xxvi) as follows:

"(xxvi) Effective January 1, 2008, a salaried employee of Calflex Manufacturing, Inc. ('Calflex'), who became an Employee as a result of Calflex's acquisition by the Sponsoring Employer (the 'Calflex Acquisition') shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2008 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Calflex prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing June 2, 2006."

4. Effective January 1, 2008, the first paragraph of Section 4.02 of the Plan shall be amended to read as follows:

"Except as provided below, a Participant who has reached his fifty-fifth birthday and who has completed at least ten years of Service, or who has reached his sixty-second birthday and who

has completed at least five years of Service, may elect upon written notice to the Committee on an Early Retirement Date which may be the first day of any month subsequent to the date of such election and prior to his Normal Retirement Date."

5. Effective January 1, 2008 a new Section 5.13 shall be added to the Plan, to read as follows:

"5.13 IN-SERVICE DISTRIBUTION

Effective January 1, 2008, the following provisions shall apply. Any salaried Participant with an Hour of Service on or after January 1, 2008 who:

- (1) Has attained age sixty-two (62) and is credited with at least five (5) years of Service, and
- (2) Is party to an agreement with the Employer, pursuant to which he has reduced his regularly scheduled hours by 25% or more,

may elect to commence the Actuarial Equivalent of his accrued benefit, determined under Section 5.03.2 as of the first of the month following his election on a form and under procedures established by the Committee. Such amount shall be determined as an annuity for life only, payable monthly commencing on the date elected by the Participant ('In-Service Distribution Date') and ending on the earlier of the Participant's death, retirement under Article 4, or resumption of employment that exceeds 75% of his regularly scheduled hours. Upon the Participant's retirement under Article 4, such Participant's accrued benefit shall be re-determined under the appropriate provision of the Plan, and include an adjustment to offset the Actuarial Equivalent of any payments already made with respect to the Participant under this Section 5.13. In the event that the benefit under this Section 5.13 ceases due to the death of the Participant, any death benefit payable under Article 7 to a surviving spouse shall be based on the Participant's accrued benefit re-determined as of the date of his death and shall not include an adjustment to offset the Actuarial Equivalent of any payments already made with respect to the Participant under this Section 5.13. Notwithstanding the foregoing, such redetermined accrued benefit shall not be less than the accrued benefit determined as of the In-Service Distribution Date under this Section 5.13.

The provisions of this Section 5.13 shall not be construed as giving any Employee the right to alter his regularly scheduled hours without the consent of the Employer. It is intended that the provisions of this Section 5.13 shall comply with Code Section 401(a)(36) and any future regulations and guidance issued by the Internal Revenue Service."

6. Section 8.02 of the Plan shall be amended effective January 1, 2008 as follows:

"8.02 CONTINGENT ANNUITANT OPTION

A Participant may elect an option in accordance with Section 5.02, under which option he or she will receive an actuarially reduced benefit during his lifetime after retirement and 100%, $66\frac{2}{3}\%$ or 50% of such reduced amount will be continued to a person designed by the Participant at the time of election of the option (and referred to as a Contingent Annuitant) for the duration of the Contingent Annuitant's lifetime. Effective for benefits commencing on or after January 1, 2008, the $66\frac{2}{3}\%$ Contingent Annuitant Option shall be eliminated, and shall be replaced by the 75% Contingent Annuitant Option."

7. Section 1.01(b) of Part A of the Plan is amended effective January 1, 2008 as follows:

"(b) For purposes of Section 12.01, 12.02, or for a form of payment that decreases during the life of the Participant merely because of the cessation or reduction of Social Security supplements, and for any lump sum distribution date occurring on or after January 1, 2008, Actuarial Equivalent will be determined by using the mortality table defined in Code Section 417(e)(3), and using an interest rate based on the adjusted first, second and third

segment rates determined under Code Sections 417(e)(3)(C) and (D) for the November preceding the first day of the Plan Year in which the distribution date occurs, as prescribed by the Internal Revenue Service for purposes of calculating present value and determining the amount of any single-sum distribution. For purposes of determining the interest rate for Plan Years beginning 2008, 2009, 2010 and 2011, Code Section 417(e)(3)(D)(iii) is applicable."

8. Effective January 1, 2008, Section 1.13 of Part A of the Plan shall be amended to add the following sentence to the end thereof:

"Effective January 1, 2008, the term 'Employer' includes Calflex Manufacturing, Inc."

9. Effective January 1, 2008, Section 3.01(b) of Part A of the Plan shall be amended to add a new subsection (xxi) as follows:

"(xxi) Effective January 1, 2008, an hourly employee of Calflex Manufacturing, Inc. ('Calflex') who became an Employee as a result of Calflex's acquisition by the Sponsoring Employer (the 'Calflex Acquisition') shall become an Eligible Employee under this Plan and shall become a Participant in the Plan as of the later of January 1, 2008 or the date the Eligible Employee meets the requirements of Section 3.01(a). Such Eligible Employee's service with Calflex prior to acquisition by the Sponsoring Employer shall be taken into account for eligibility and vesting. However, such Eligible Employee's Benefit Service shall be taken into account only with regard to service with the Employer commencing June 2, 2006."

10. Effective January 1, 2008, Section 4.02 of Part A of the Plan shall be amended to add the following paragraph at the end thereof:

"Effective January 1, 2008, a Participant who has reached his sixty-second birthday and has also completed at least five years of Service may elect upon written notice to the Committee an Early Retirement Date which may be the first day of any month subsequent to the date of such election and prior to his Normal Retirement Date."

11. Effective January 1, 2008, Section 5.0315 of Part A of the Plan shall be amended to add the following at the end thereof:

"Notwithstanding any provision of this Plan to the contrary and subject to Section 5.04, the Monthly Normal Retirement Benefit payable to a Participant (i) who is an Eligible Employee of an entity that is included as an Employer under Section 1.13 as of January 1, 2008, (ii) who performed an Hour of Service on or after January 1, 2008, and (iii) who retires under the Plan shall be equal to the number of his years of Benefit Service (including fractions thereof) multiplied by \$17.00."

12. Section 8.02 of Part A of the Plan is amended effective January 1, 2008 as follows:

"8.02 CONTINGENT ANNUITANT OPTION

A Participant may elect an option in accordance with Section 5.02, under which option he or she will receive an actuarially reduced benefit during his lifetime after retirement and 100%, $66\frac{2}{3}\%$ or 50% of such reduced amount will be continued to a person designed by the Participant at the time of election of the option (and referred to as a Contingent Annuitant) for the duration of the Contingent Annuitant's lifetime. Effective for benefits commencing on or after January 1, 2008, the $66\frac{2}{3}\%$ Contingent Annuitant Option shall be eliminated, and shall be replaced by the 75% Contingent Annuitant Option."

13. Section 1.02(b) of Part B of the Plan is amended effective January 1, 2008 as follows:

"(b) For purposes of Section 9.04, 9.05 and for any lump sum distribution date occurring on or after January 1, 2008, Actuarial Equivalent will be determined by using the mortality table

defined in Code Section 417(e)(3), and using an interest rate based on the adjusted first, second and third segment rates determined under Code Sections 417(e)(3)(C) and (D) for the November preceding the first day of the Plan Year in which the distribution date occurs, as prescribed by the Internal Revenue Service for purposes of calculating present value and determining the amount of any single-sum distribution. For purposes of determining the interest rate for Plan Years beginning 2008, 2009, 2010 and 2011, Code Section 417(e)(3)(D)(iii) is applicable. For purposes of this subsection, the term 'distribution date' means the date as of which an amount is paid."

14. Effective January 1, 2008, Section 4.03(a) of Part B of the Plan shall be amended to read as follows:

"(a) A Participant may retire from the employment of the Employer prior to his Normal Retirement Date on his Early Retirement Date, which is the first day of any month coinciding with or following the date that he or she:

- (i) both attains the age of sixty (60) and completes twenty-five (25) Years of Service, or
- (ii) both attains the age of sixty-two (62) and completes five (5) Years of Service,

and elects to retire. A Participant may further elect to have his retirement benefit commence on his Early Retirement Date or may irrevocably elect to defer commencement of his benefit to his Normal Retirement Date."

15. Section 7.01(a) of Part B of the Plan is amended effective January 1, 2008 as follows:

"(a) Joint and Survivor Option: A married Participant may elect to receive a monthly retirement benefit during the lifetime of the Participant and have either fifty percent (50%), seventy-five percent (75%) or one hundred percent (100%) of such monthly retirement benefit continued after the Participant's death to a Contingent Annuitant or Spouse during the remaining lifetime of the Contingent Annuitant or Spouse within the restrictions contained in Section 8.01(b)(ii)."

16. Except as otherwise provided herein, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Sponsoring Employer has caused this amendment to be executed by its duly authorized representative and its seal affixed hereto on this 18th day of December, 2007.

WATTS WATER TECHNOLOGIES, INC.

By: /s/ William C. McCartney

WATTS WATER TECHNOLOGIES, INC.
SUPPLEMENTAL EMPLOYEES RETIREMENT PLAN
As Amended and Restated
Effective May 4, 2004

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ARTICLE I

NAME, PURPOSE AND EFFECTIVE DATE

1.01 NAME AND PURPOSE

The supplemental retirement plan set forth herein as the "Watts Water Technologies, Inc. Supplemental Employees Retirement Plan" (the "Plan"). The Plan is established, and shall be maintained, solely for the purpose of providing supplemental retirement benefits which cannot be provided under the Watts Water Technologies, Inc. Pension Plan (the "Qualified Plan") for certain Participants. The Plan is unfunded and maintained primarily for purpose of providing deferred compensation for Participants who are part of a select group of management or highly compensated employees."

1.02 EFFECTIVE DATE

This restated Plan shall be effective May 4, 2004 (the "Effective Date"). This Plan shall apply to Participants who retire or terminate their employment with the Employer after the Effective Date. The Plan was originally effective on January 1, 1989 (the "Original Effective Date"). Participants who retire or terminate their employment with the Employer on or after the Original Effective Date but prior to the Effective Date of this Plan shall have their benefits determined based on the Plan provisions in effect on the date they retire or otherwise terminate their employment with the Employer.

ARTICLE II

DEFINITIONS

Whenever used in this Plan, unless the context clearly indicates otherwise, the following terms shall have the following meanings:

2.01 "Code" means the Internal Revenue Code of 1986.

2.02 "Compensation" means the total compensation payable to an eligible Employee by the Employer and reportable to the Federal Government for income tax purposes on Form W-2, or any form prescribed by the Internal Revenue Service to take its place.

Compensation also includes: (i) amounts contributed by the Employee at the election of the Employee pursuant to a salary deferral arrangement under Section 401(k), (ii) amounts contributed or deferred at the election of the Employee and which are not includible in gross income of the Employee by reason of Section 125 of the Code, (iii) amounts deferred at the election of the Employee pursuant to a salary deferral agreement under the Watts Water Technologies, Inc. Management Stock Purchase Plan (formerly called the Watts Industries, Inc. Management Stock Purchase Plan), and (iv) amounts deferred at the election of the Employee pursuant to a salary deferral agreement under the Watts Water Technologies, Inc. Non-Qualified Deferred Compensation Plan (formerly called the Watts Industries, Inc. Non-Qualified Deferred Compensation Plan).

For any Employee listed in Tier 1, Tier 1-A or Tier 1-T of Appendix A, there shall be no limit on such Employee's Compensation. For any Employee listed in Tier 2 of Appendix A, in no event shall such Employee's Compensation exceed \$383,450 for the Plan Year beginning January 1, 2004. For any eligible Employee not listed in Tier 1, Tier 1-A, Tier 1-T or Tier 2 of Appendix A, in no event shall such Employee's Compensation exceed \$306,760 for the Plan Year beginning January 1, 2004. For each subsequent Plan Year, the \$383,450 and \$306,760 limitations shall be adjusted at the same time and in the same proportion as the adjustment to the maximum benefit limitation under Internal Revenue Code Section 415(d) which is applicable to the Qualified Plan. In all other respects, the limitations on annual Compensation under this Section shall be applied in the same manner in determining Final Average Compensation as the limitation under Internal Revenue Code Section 401(a)(17) is to be applied under the Qualified Plan.

2.03 "Employer " means Watts Water Technologies, Inc. (formerly known as Watts Industries, Inc.) or any successor thereto and any other entity now or hereafter affiliated with Watts Water Technologies, Inc. which participates in the Qualified Plan.

2.04 "Final Average Compensation" means, unless otherwise modified in the Appendices, the average of the Participant's Compensation for the sixty (60) consecutive months during the last one hundred and twenty (120) months of his service prior to his termination of employment for which he received the highest total Compensation. If a Participant has not completed at least sixty (60) months of Service with the Employer, his Final Average Compensation shall be the average of his Compensation during his period of Service with the Employer.

2.05 "Participant" means an Employee who meets the eligibility requirements for this Plan in the manner set forth in Article 3.

2.06 "Plan Administrator" means Watts Water Technologies, Inc., or its duly authorized representative.

2.07 "Social Security Benefit" means the primary insurance benefit payable annually to an Employee at Normal Retirement Age under Title II of the Social Security Act as in effect on the date he terminates his employment or on his Normal Retirement Age, if earlier, computed without regard to any reduction or loss of benefits which may result due to other income, delay in making

application or any other reason; provided, however, that in the case of a Participant who terminates his employment prior to his attainment of Normal Retirement Age, his Social Security benefit shall be computed in accordance with the following provisions:

- (a) If the Participant has satisfied the eligibility requirements for an Early Retirement Benefit under Section 4.02 prior to his termination, his Social Security Benefit will be based on the assumption that he received no further Compensation from his termination date until he attained his Normal Retirement Age.
- (b) If the Participant has not satisfied the requirements for an Early Retirement Benefit prior to his termination, his Social Security Benefit will be based on the assumption that he remained in the service of the Employer until he reached his Normal Retirement Age and that he continued to receive the same rate of Compensation from the Employer as in effect on his termination date until his Normal Retirement Age.

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

2.08 "Sponsoring Employer" means Watts Water Technologies, Inc. (formerly known as Watts Industries, Inc.).

2.09 CERTAIN DEFINITIONS UNDER QUALIFIED PLAN APPLY

The following terms shall have the same meaning at any relevant time as that contained in the Qualified Plan. Any amendment under the Qualified Plan to the meaning of a term listed hereunder shall also apply under this Plan to the same extent and in the same manner as under the Qualified Plan.

Actuarial Equivalent	Employee
Beneficiary	Normal Retirement Age
Benefit Service	Normal Retirement Date
Board of Directors	Service
Contingent Annuitant	Spouse Joint and Survivor Annuity
Controlled Group Company	Year of Service
Deferred Retirement Date	
Early Retirement Date	

ARTICLE III

ELIGIBILITY

3.01 PARTICIPATION

Prior to January 1, 1994, the Board of Directors, designated the Employees who were eligible to participate in the Plan under Section 4.01(a). These Employees are listed in Tier 2 of Appendix A, attached hereto.

On and after January 1, 1994, any Employee not designated in Tier 1, Tier 1-A, Tier 1-T or Tier 2 of Appendix A whose Compensation under the Qualified Plan is limited under Internal Revenue Code Section 401(a) (17), or who entered into a salary deferral agreement under the Watts Water Technologies, Inc. Management Stock Purchase Plan or, effective September 1, 2003, the Watts Water Technologies, Inc. Non-Qualified Deferred Compensation Plan, is eligible to participate in this Plan.

Effective January 1, 1998, the Board of Directors shall designate the Employees who are eligible to participate in the Plan under Appendix B. These Employees are listed in Tier 1 of Appendix A.

Effective January 1, 2003, the Board of Directors shall designate the Employees who are eligible to participate in the Plan under Appendix C. These Employees are listed in Tier 1-A of Appendix A.

Effective May 4, 2004, the Board of Directors shall designate the Employees who are eligible to participant in the Plan under Appendix D. These Employees are listed in Tier 1-T of Appendix A.

ARTICLE IV

RETIREMENT BENEFITS

4.01 AMOUNT OF NORMAL OR DEFERRED RETIREMENT BENEFIT

Subject to the provisions of Section 4.04, the amount of the annual Normal Retirement Benefit or Deferred Retirement Benefit (as defined in this Section 4.01) payable in the Normal Form of Payment to a Participant who retires under this Plan on or after his Normal Retirement Date shall be the excess, if any, of (a) or (b), whichever is applicable, over (c):

- (a) For eligible Participants listed in Tier 2 of Appendix A, forty-five percent (45%) of his Final Average Compensation less fifty percent (50%) of his Social Security Benefit, multiplied by a fraction (not to exceed one), the numerator of which is his years (and fractions thereof) of Benefit Service and the denominator of which is twenty-five (25).
- (b) For eligible Participants not listed in Tier 1, Tier 1-A, Tier 1-T or Tier 2 of Appendix A, the annual benefit payable in the form of a straight life annuity determined under the relevant normal or deferred retirement benefit provisions of the Qualified Plan, but based on Final Average Compensation as defined in this Plan and ignoring any limitations under Internal Revenue Code Section 415.
- (c) The annual benefit is payable in the form of a straight life annuity under the Qualified Plan.

Notwithstanding the above, the amount of annual Normal Retirement Benefit or Deferred Retirement Benefit for eligible Participants listed in Tier 2 of Appendix A attached hereto shall in no event be less than the amount determined as if the eligible Participant was not listed in Tier 1, Tier 1-A, Tier 1-T or Tier 2 of Appendix A and eligible for the Normal Retirement Benefit or Deferred Retirement Benefit described in Section 4.01(b) of the Plan.

4.02 AMOUNT OF EARLY RETIREMENT BENEFIT

Subject to the provisions of Section 4.04, the amount of the annual Early Retirement Benefit (as defined in this Section 4.02) of a Participant who elects to retire on or after his Early Retirement Date shall be a benefit computed in accordance with (a) or (b) below, as elected by the Participant in accordance with the requirements of Section 6.03:

- (a) A benefit commencing on his Normal Retirement Date in an amount equal to his Accrued Normal Retirement Benefit as defined and determined in accordance with Section 4.03.
- (b) A reduced benefit commencing on his Early Retirement Date or the first day of any month thereafter but prior to his Normal Retirement Date, as elected by the Participant, which benefit shall be computed as the excess of (i) over (ii) where:
 - (i) is equal to the benefit determined in Section 4.01(a) or 4.01(b) above, as applicable, reduced in amount in the same manner as the reduction made to the amount of benefit payable under the Qualified Plan prior to his Normal Retirement Date, and
 - (ii) is equal to the benefit determined under Section 4.01(c) reduced in the same manner as the reduction made to the amount of benefit payable under the Qualified Plan prior to his Normal Retirement Date.

4.03 ACCRUED NORMAL RETIREMENT BENEFIT

For an eligible Participant whose benefit is determined in accordance with Sections 4.01(a) and (c), such Participant's Accrued Normal Retirement Benefit at any time prior to his Normal Retirement Date, shall be determined as the amount of Normal Retirement Benefit that the Participant would have received under subsection (a) of Section 4.01 if he had remained in the employ of the Employer to his Normal Retirement Date, but based on his Final Average Compensation and Social Security Benefit as of the date such Accrued Normal Retirement Benefit is being determined. Such amount shall then be multiplied by a fraction in which the numerator is the number of years (and fractions thereof) of Benefit Service that the Participant has completed, and the denominator is the number of years (and fractions thereof) of Benefit Service that the Participant would have completed if he had remained in the employ of the Employer to his Normal Retirement Date, and such amount shall then be reduced by the amount determined under subsection (c) of Section 4.01; provided, however, that in the case of a Participant who has completed twenty-five (25) years of Benefit Service and has satisfied the conditions for an Early Retirement Benefit, the fractional reduction of this Section 4.03 shall not apply in determining his Accrued Normal Retirement Benefit.

For an eligible Participant whose benefit is determined in accordance with Sections 4.01(b) and (c), such Participant's Accrued Normal Retirement Benefit at any time prior to his Normal Retirement Date shall be determined as the excess of the benefit determined in accordance with Section 4.01(b) over the benefit determined in accordance with Section 4.01(c).

4.04 SPECIAL RETIREMENT BENEFIT

Notwithstanding any other provision to the contrary, eligible Participants listed in Tier 1 of Appendix A shall be entitled to receive the Special Retirement Benefit as set forth in Appendix B, which is hereby incorporated and made a part of this Plan, in lieu of the benefit otherwise provide under this Article IV. Eligible Participants listed in Tier 1-A of Appendix A shall be entitled to receive the Special Retirement Benefit as set forth in Appendix C, which is hereby incorporated and made a part of this Plan, in lieu of the benefit otherwise provided under this Article IV. Eligible Participants listed in Tier 1-T of Appendix A shall be entitled to receive the Special Retirement Benefit as set forth in Appendix D, which is hereby incorporated and made a part of this Plan.

4.05 ADJUSTMENT OF THE QUALIFIED PLAN OFFSET FOR CERTAIN PARTICIPANTS

Notwithstanding the foregoing provisions of this Article IV, in the event the annual benefit payable under the Qualified Plan in the form of a straight life annuity exceeds the maximum benefit limitation of Internal Revenue Code Section 415 and the Participant elects to receive a Spouse Joint and Survivor Annuity form of payment under the Qualified Plan, the Qualified Plan offset described in Section 4.01(c)(ii) shall be equal to the straight life annuity Actuarial Equivalent of the benefit actually elected by the Participant under the Qualified Plan.

ARTICLE V

VESTING

5.01 VESTING

Subject to Section 5.03, a Participant's Accrued Normal Retirement Benefit shall be fully vested upon the date which is the earlier of (i) his completion of six (6) years of Service, (ii) his Early Retirement Date, or (iii) his attainment of Normal Retirement Age, provided he is actively employed by the Employer on such date. A Participant whose employment with the Employer ceases prior to his satisfaction of one of the full vesting conditions of this Section 5.01 shall not be entitled to any benefit under this Plan.

5.02 AMOUNT OF VESTED ACCRUED BENEFIT

The amount of the Accrued Normal Retirement Benefit of a Participant shall be determined under Section 4.03. In the event that the payment of a Participant's vested Accrued Normal Retirement Benefit commences prior to his Normal Retirement Date in accordance with Section 6.03, the amount of benefit payable on such prior date shall be reduced in the same manner as the reduction described in Section 4.02(b).

5.03 FORFEITURE FOR CAUSE

Any Participant who (i) because of admitted or judicially proven fraud or dishonesty causes substantial harm to the Employer (or a Controlled Group Company), or (ii) knowingly and materially violates any non-interference or non-competition provision contained in any employment agreement with the Employer (or a Controlled Group Company), shall forfeit all retirement benefits otherwise payable to him, and death benefits payable to his spouse, Beneficiary, or Contingent Annuitant under this Plan.

ARTICLE VI

NORMAL FORM, FORM PAYABLE, AND COMMENCEMENT OF RETIREMENT BENEFITS

6.01 NORMAL FORM OF PAYMENT

The Normal Form of Payment (as defined in this Section 6.01) of a Participant's benefits under this Plan shall be an annuity for life, payable monthly, commencing on the first day of the month coinciding with or next following the date his benefit commences under Section 6.03 and terminating with the payment preceding his death.

6.02 FORM TO BE PAID

The Participant's benefit under this Plan shall be paid in the same form as that applicable under the Qualified Plan, including the Participant's designation of Beneficiary or Contingent Annuitant thereunder. In the event that the form paid under the Qualified Plan is other than the Normal Form of Payment under Section 6.01, the amount of benefit being paid under this Plan shall be the Actuarial Equivalent of the Normal Form of Payment.

6.03 COMMENCEMENT OF PAYMENT

Benefits shall commence under this Plan to a Participant as of the same date that benefits commence to the Participant under the Qualified Plan; provided, however, that, in the case of a Participant required to commence benefit payments under the Qualified Plan solely on account of the Participant's attainment of age seventy and one-half ($70\frac{1}{2}$), benefits shall not commence under this Plan until the Participant actually retires.

6.04 SUSPENSION OF BENEFITS

Payment of benefits under this Plan to a retired Participant who is re-employed by the Employer shall be suspended if the payment of such Participant's benefit under the Qualified Plan is (i) suspended on account of reemployment, or (ii) would have been suspended but for the Participant's having attained age $70\frac{1}{2}$. Upon such Participant's subsequent retirement or termination of employment, his benefits shall recommence and the benefit payable under this Plan may be recomputed by accumulating both periods of employment and may be actuarially adjusted to reflect any benefit payments previously made to the Participant in order to avoid any duplication of benefits.

ARTICLE VII

DEATH BENEFITS

7.01 DEATH BENEFIT PRIOR TO BENEFIT COMMENCEMENT

The surviving spouse of a Participant who dies prior to the date as of which benefits are to commence under this Plan shall be entitled to a death benefit under this Plan in the event that the Participant was legally married to the surviving spouse for the one year period ending on the date of the Participant's death and the Participant's Accrued Normal Retirement Benefit was vested under Section 5.01 at the time of his death. The preceding sentence shall not apply, and the death benefit provisions of Section 7.03 shall apply, in the case of a Participant who dies prior to the date as of which benefits are to commence under this Plan but after benefits commence to the Participant under the Qualified Plan on account of the Participant's attainment of age 70 ¹ / 2 .

No death benefit shall be payable under this Plan with respect to a Participant who dies before benefit commencement without a surviving spouse eligible to receive a death benefit.

7.02 AMOUNT AND COMMENCEMENT OF DEATH BENEFIT PAYABLE TO SURVIVING SPOUSE

The annual amount of the surviving spouse's death benefit payable under this Plan shall be calculated in the same manner that the surviving spouse's death benefit is calculated under the Qualified Plan and shall be equal to the survivor annuity payable with respect to the Participant's benefit under Article IV or Article V, as appropriate, if the Participant's benefit were paid in the form of a Spouse Joint and Survivor Annuity. The surviving spouse's benefit under this Plan shall commence at the same time that such benefit commences under the Qualified Plan.

7.03 DEATH BENEFIT AFTER BENEFIT COMMENCEMENT

The death benefit payable, if any, to the Participant's surviving spouse, Beneficiary, or Contingent Annuitant in the event of the Participant's death after benefits commence under this Plan shall be pursuant to the form of retirement benefit applicable under Section 6.02. No other death benefit shall be payable under this Plan.

ARTICLE VIII

FUNDING

8.01 FUNDING

There is no fund associated with this Plan. The Sponsoring Employer shall be required to make payments only as benefits become due and payable. No person shall have any right, other than the right of an unsecured general creditor, against the Sponsoring Employer with respect to the benefits payable hereunder, or which may be payable hereunder, to any Participant, surviving spouse or Beneficiary or Contingent Annuitant hereunder. If the Sponsoring Employer, acting in its sole discretion, establishes a reserve or other fund associated with this Plan, no person shall have any right to or interest in any specific amount or asset of such reserve or fund by reason of amounts which may be payable to such person under this Plan, nor shall such person have any right to receive any payment under this Plan except as and to the extent expressly provided in this Plan. The assets in any such reserve or fund shall be subject to the control of the Sponsoring Employer, and need not be used to pay benefits hereunder.

ARTICLE IX

MISCELLANEOUS

9.01 NON-GUARANTEED OF EMPLOYMENT

Nothing contained in this Plan shall be construed as a contract of employment between the Employer and any Employee, or as a right of any such Employee to be continued in the employment of the Employer, or as a limitation on the right of the Employer to deal with any Employee, as to their hiring, discharge, layoff, compensation, and all other conditions of employment in all respects as though this Plan did not exist.

9.02 RIGHTS UNDER RETIREMENT PLAN

Nothing in this Plan shall be construed to limit, broaden, restrict, or grant any right to an Employee, surviving spouse or any Beneficiary or Contingent Annuitant thereof under the Qualified Plan, nor to grant any additional rights to any such person under the Qualified Plan, nor in any way to limit, modify, repeal or otherwise affect the Employer's right to amend or modify the Qualified Plan.

9.03 AMENDMENTS/TERMINATION

The Sponsoring Employer reserves the right to make from time to time amendments to or terminate this Plan by vote duly adopted by the Board of Directors. In the event the Sponsoring Employer exercises his right to amend or terminate this Plan, a Participant shall receive the lesser of: (a) the benefit he would have received had he terminated employment on the day the amendment or termination becomes effective, or (b) the benefit he would have received had the Plan continued, in effect, without amendment, until the date of his actual termination of employment.

9.04 NONASSIGNABILITY

The benefits payable under this Plan shall not be subject to alienation, assignment, garnishment, execution or levy of any kind and any attempt to cause any benefits to be so subjected shall not be recognized, except to the extent required by applicable law.

9.05 PLAN ADMINISTRATION

This Plan shall be operated and administered by the Board of Directors or its duly authorized representative whose decision on all matters involving the interpretation and administration of this Plan shall be final and binding.

9.06 SUCCESSOR COMPANY

In the event of the dissolution, merger, consolidation or reorganization of the Sponsoring Employer, provision may be made by which a successor to all or a major portion of the Sponsoring Employer's property or business shall continue this Plan, and the successor shall have all of the powers, duties and responsibilities of the Sponsoring Employer under this Plan.

9.07 GOVERNING LAW

This Plan shall be construed and enforced in accordance with, and governed by, the laws of the Commonwealth of Massachusetts.

9.08 CLAIMS PROCEDURES

The Claims Procedure currently detailed, and as may later be amended, under the Qualified Plan is hereby incorporated by reference as the Claims Procedure for this Plan; provided, however that the "Board of Directors, or its duly authorized representative", shall be substituted for the "Committee" in the Claims Procedures detailed in such Qualified Plan.

IN WITNESS WHEREOF, Watts Water Technologies, Inc. has caused this instrument to be executed in its name and on its behalf this day of _____, 2004.

WATTS WATER TECHNOLOGIES, INC.

By: _____

APPENDIX A

LIST OF PARTICIPANTS

Tier 1 The following is a list of Participants eligible for the Special Retirement Benefit described in Section 4.04 and Appendix B of the Plan:

Ernest Elliot
Michael Fifer
Kenneth McAvoy
William McCartney

Tier 1-A The following is a list of Participants eligible for the Special Retirement Benefit described in Section 4.04 and Appendix C of the Plan:

Paul Lacourciere

Tier 1-T The following is a list of Participants eligible for the Special Retirement Benefit described in Section 4.04 and Appendix D of the Plan:

Patrick O'Keefe

Tier 2 The following is a list of Participants eligible for benefits described in Section 4.01 (a) of the Plan:

Rand Ackroyd
Stephen Banyacski
Peter Chapman
Charles Grigg
Frederic Horne
Timothy Horne
Donald Marshall
Robert McLaurin
Timothy R. Mullen
Bill D. Neimann
John Ouellette
Jerry Priest
James Riley
Michael Seigfried
Kevin Sweeney
Charles Wolley

APPENDIX B

SPECIAL RETIREMENT BENEFIT—TIER 1

The following provisions shall apply to the Participants referenced in Section 4.04 and listed in Appendix A of the Plan:

A. SPECIAL NORMAL AND EARLY RETIREMENT DATE

For purposes of this Appendix B, a Participant's Special Normal Retirement Date is the first day of the month coincident with or next following the later of the attainment of age sixty-two (62) or the completion of five (5) Years of Service.

For purposes of this Appendix B, a Participant's Special Early Retirement Date is the first day of the month of any month following the Participant's attainment of age fifty-five (55) with 5 Years of Service and prior to the Participant's attainment of his Special Normal Retirement Date that he elects to retire.

B. AMOUNT OF NORMAL OR DEFERRED RETIREMENT BENEFIT

Subject to the provisions of Section 4.05, the amount of the annual Normal Retirement Benefit or Deferred Retirement Benefit payable as a straight life annuity to a Participant who retires under this Plan on or after his Special Normal Retirement Date shall be the sum of (a) plus (b) offset by the amount described in (c).

- (a) 2% of Final Average Compensation times years of Benefit Service not to exceed ten (10) years.
- (b) 3% of Final Average Compensation times years of Benefit Service in excess of ten (10) years but not to exceed twenty (20) years.
- (c) The annual benefit payable in the form of a straight life annuity under the Qualified Plan.

In the event a Participant is not eligible to commence receiving payments under the Qualified Plan as of his Special Normal Retirement Date, the offset described above shall not be made until the earliest date the Participant could elect to commence his benefit under the Qualified Plan.

For purposes of this Section B of Appendix B, "Final Average Compensation" is the same definition as set forth in Section 2.03 except that the Participant's Compensation is averaged over thirty six (36) consecutive months instead of sixty (60) consecutive months out of the Participant's last one hundred-twenty (120) months. The Participant's Compensation used in determining his Final Average Compensation is as defined in Section 2.01 without regard to the last paragraph of such Section.

C. AMOUNT OF EARLY RETIREMENT BENEFIT

Subject to the provisions of Section 4.05 the amount of the annual Early Retirement Benefit of a Participant who elects to retire before his Special Normal Retirement Date shall be a benefit calculated in accordance with (a) or (b) below, as elected by the Participant in accordance with the requirements of Section 6.03.

- (a) A benefit commencing on his Special Normal Retirement Date in an amount equal to his Normal Retirement Benefit described in Section B above.
- (b) A reduced benefit commencing on his Special Early Retirement Date as elected by the Participant. Such reduced benefit shall be the sum of the amounts determined under

subsections (a) and (b) of Section B reduced five ninths of one percent ($\frac{5}{9}\%$) for each full month that benefits commence prior to the Participant's Special Normal Retirement Date until age sixty (60) and five eighteenthths of one percent ($\frac{5}{18}\%$) for each full month that benefits commence prior to age sixty (60), offset by the amount described in subsection (c) of Section B. In the event a Participant is not eligible to commence receiving payments under his Qualified Plan as of his Special Early Retirement Date, the offset described in the preceding sentence shall not be made until the earliest date the Participant could commence benefits under the Qualified Plan.

D. VESTING

A Participant shall be fully vested upon the completion of five (5) years of Service.

E. PLAN PROVISIONS STILL APPLY

Except as may be modified in this Appendix B, the regular provisions of the Plan shall continue to apply to the extent they are not in conflict with the provisions as set forth in this Appendix B.

APPENDIX C

SPECIAL RETIREMENT BENEFIT—TIER 1-A

The following provisions shall apply to the Participants referenced in Section 4.04 and listed in Appendix A of the Plan:

A. SPECIAL NORMAL AND EARLY RETIREMENT DATE

For purposes of this Appendix C, a Participant's Special Normal Retirement Date is the first day of the month coincident with or next following the later of the attainment of age sixty-two (62) or the completion of five (5) Years of Service.

For purposes of this Appendix C, a Participant's Special Early Retirement Date is the first day of the month of any month following the Participant's attainment of age fifty-five (55) with 5 Years of Service and prior to the Participant's attainment of his Special Normal Retirement Date that he elects to retire.

B. AMOUNT OF NORMAL OR DEFERRED RETIREMENT BENEFIT

Subject to the provisions of Section 4.05, the amount of the annual Normal Retirement Benefit or Deferred Retirement Benefit payable as a straight life annuity to a Participant who retires under this Plan on or after his Special Normal Retirement Date shall be the sum of (a) plus (b) offset by the amount described in (c).

- (a) 1.75% of Final Average Compensation times years of Benefit Service not to exceed ten (10) years.
- (b) 2.25% of Final Average Compensation times years of Benefit Service in excess of ten (10) years but not to exceed twenty (20) years.
- (c) The annual benefit payable in the form of a straight life annuity under the Qualified Plan.

In the event a Participant is not eligible to commence receiving payments under the Qualified Plan as of his Special Normal Retirement Date, the offset described above shall not be made until the earliest date the Participant could elect to commence his benefit under the Qualified Plan.

For purposes of this Section B of Appendix C, "Final Average Compensation" is the same definition as set forth in Section 2.03 except that the Participant's Compensation is averaged over thirty six (36) consecutive months instead of sixty (60) consecutive months out of the Participant's last one hundred-twenty (120) months. The Participant's Compensation used in determining his Final Average Compensation is as defined in Section 2.01 without regard to the last paragraph of such Section.

C. AMOUNT OF EARLY RETIREMENT BENEFIT

Subject to the provisions of Section 4.05 the amount of the annual Early Retirement Benefit of a Participant who elects to retire before his Special Normal Retirement Date shall be a benefit calculated in accordance with (a) or (b) below, as elected by the Participant in accordance with the requirements of Section 6.03.

- (a) A benefit commencing on his Special Normal Retirement Date in an amount equal to his Normal Retirement Benefit described in Section B above.
- (b) A reduced benefit commencing on his Special Early Retirement Date as elected by the Participant. Such reduced benefit shall be the sum of the amounts determined under

subsections (a) and (b) of Section B reduced five ninths of one percent ($\frac{5}{9}\%$) for each full month that benefits commence prior to the Participant's Special Normal Retirement Date until age sixty (60) and five eighteenthths of one percent ($\frac{5}{18}\%$) for each full month that benefits commence prior to age sixty (60), offset by the amount described in subsection (c) of Section B. In the event a Participant is not eligible to commence receiving payments under his Qualified Plan as of his Special Early Retirement Date, the offset described in the preceding sentence shall not be made until the earliest date the Participant could commence benefits under the Qualified Plan.

D. VESTING

A Participant shall be fully vested upon the completion of five (5) years of Service.

E. PLAN PROVISIONS STILL APPLY

Except as may be modified in this Appendix C, the regular provisions of the Plan shall continue to apply to the extent they are not in conflict with the provisions as set forth in this Appendix C.

APPENDIX D

SPECIAL RETIREMENT BENEFIT—TIER 1-T

The following provisions shall apply to the Participants referenced in Section 4.04 and listed in Appendix A of the Plan:

A. SPECIAL NORMAL AND EARLY RETIREMENT DATE

For purposes of this Appendix D, a Participant's Special Normal Retirement Date is the first day of the month coincident with or next following the later of the attainment of age sixty-two (62) or the completion of five (5) Years of Service.

For purposes of this Appendix D, a Participant's Special Early Retirement Date is the first day of the month of any month following the Participant's attainment of age fifty-five (55) with 5 Years of Service and prior to the Participant's attainment of his Special Normal Retirement Date that he elects to retire.

B. AMOUNT OF NORMAL OR DEFERRED RETIREMENT BENEFIT

Subject to the provisions of Section 4.05, the amount of the annual Normal Retirement Benefit or Deferred Retirement Benefit payable as a straight life annuity to a Participant who retires under this Plan on or after his Special Normal Retirement Date shall be the sum of

- (a) offset by the amount described in (b).

- (a) 3% of Final Average Compensation times years of Benefit Service not to exceed sixteen and two-thirds ($16 \frac{2}{3}$) years.
- (b) The annual benefit payable in the form of a straight life annuity under the Qualified Plan.

In the event a Participant is not eligible to commence receiving payments under the Qualified Plan as of his Special Normal Retirement Date, the offset described above shall not be made until the earliest date the Participant could elect to commence his benefit under the Qualified Plan.

For purposes of this Section B of Appendix D, "Final Average Compensation" is the same definition as set forth in Section 2.03 except that the Participant's Compensation is averaged over thirty six (36) consecutive months instead of sixty (60) consecutive months out of the Participant's last one hundred-twenty (120) months. The Participant's Compensation used in determining his Final Average Compensation is as defined in Section 2.01 without regard to the last paragraph of such Section.

C. AMOUNT OF EARLY RETIREMENT BENEFIT

Subject to the provisions of Section 4.05 the amount of the annual Early Retirement Benefit of a Participant who elects to retire before his Special Normal Retirement Date shall be a benefit calculated in accordance with (a) or (b) below, as elected by the Participant in accordance with the requirements of Section 6.03.

- (a) A benefit commencing on his Special Normal Retirement Date in an amount equal to his Normal Retirement Benefit described in Section B above.
- (b) A reduced benefit commencing on his Special Early Retirement Date as elected by the Participant. Such reduced benefit shall be the sum of the amounts determined under subsections (a) and (b) of Section B reduced five ninths of one percent ($\frac{5}{9}\%$) for each full month that benefits commence prior to the Participant's Special Normal Retirement Date

until age sixty (60) and five eighteenthths of one percent ($\frac{5}{18}\%$) for each full month that benefits commence prior to age sixty (60), offset by the amount described in subsection (b) of Section B. In the event a Participant is not eligible to commence receiving payments under his Qualified Plan as of his Special Early Retirement Date, the offset described in the preceding sentence shall not be made until the earliest date the Participant could commence benefits under the Qualified Plan.

D. VESTING

A Participant shall be fully vested upon the completion of five (5) years of Service.

E. PLAN PROVISIONS STILL APPLY

Except as may be modified in this Appendix B, the regular provisions of the Plan shall continue to apply to the extent they are not in conflict with the provisions as set forth in this Appendix D.

**FIRST AMENDMENT TO THE
WATTS WATER TECHNOLOGIES, INC.
SUPPLEMENTAL EMPLOYEES RETIREMENT PLAN**

WHEREAS, Watts Water Technologies, Inc., Inc., (the "Sponsoring Employer") maintains the Watts Industries, Inc. Supplemental Employees Retirement Plan (the "Plan"), first effective January 1, 1989, for the benefit of eligible Employees; and

WHEREAS the Plan was most recently amended and restated effective May 4, 2004; and

WHEREAS the Sponsoring Employer desires to amend the Plan to provide that Jeffrey A. Polofsky shall be eligible for a Tier1-A benefit effective March 1, 2005 subject to a five year vesting schedule based on service with the Sponsoring Employer commencing March 1, 2005.

NOW THEREFORE , in consideration of the foregoing, the Plan is hereby amended as set forth below:

1. Effective March 1, 2005, Appendix A to the Plan is amended to add Jeffrey A. Polofsky as an eligible Participant for a Tier 1-A benefit as described in Section 4.04 and Appendix C of the Plan.
2. Effective March 1, 2005, Section D of Appendix C to the Plan is amended to read as follows:

" D. VESTING

A Participant shall be fully vested upon the completion of five (5) years of Service. Notwithstanding the previous sentence, in determining the vesting status of Jeffrey A. Polofsky for the benefit provided under this Appendix C, only Service performed by Jeffrey A. Polosky commencing on or after March 1, 2005 shall be taken into account."

3. Except as provided herein, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF , the Sponsoring Employer has caused this amendment to be executed by its duly authorized representative and its seal affixed hereto on this 1st day of March, 2005.

WATTS WATER TECHNOLOGIES, INC.

By: /s/ William C. McCartney

(Seal)

**SECOND AMENDMENT TO THE
WATTS WATER TECHNOLOGIES, INC.
SUPPLEMENTAL EMPLOYEES RETIREMENT PLAN**

WHEREAS, Watts Water Technologies, Inc. (the "Sponsoring Employer") maintains the Watts Water Technologies, Inc. Supplemental Employees Retirement Plan (the "Plan"), first effective January 1, 1989, for the benefit of eligible Employees; and

WHEREAS the Plan was most recently amended effective March 1, 2005; and

WHEREAS the Sponsoring Employer reserves the right to amend the Plan pursuant to Section 9.03 of the Plan; and

WHEREAS the Sponsoring Employer desires to amend the Plan to provide that the Plan will recognize the rights of alternate payees under a domestic relation order under certain conditions.

NOW THEREFORE , in consideration of the foregoing, the Plan is hereby amended as set forth below:

1. Effective January 1, 2008, Section 9.04 of the Plan is hereby amended as follows:

" 9.04 NONASSIGNABILITY

A Participant's or Beneficiary's rights to benefits payable under the Plan are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, or encumbrance. Notwithstanding any other provision of the Plan to the contrary, the Board shall recognize the right of an alternate payee named in a domestic relations order to receive all or part of a Participant's benefits under the Plan, but only if (a) the domestic relations order would be a "qualified domestic relations order" (within the meaning of Code Section 414(p) as if Code Section 414(p) applied to the Plan), (b) the domestic relations order does not attempt to give the alternate payee any right to any asset of the Company, (c) the domestic relations order does not confer to the alternate payee any right to receive payments under the Plan at a time or in an amount that the Participant could not receive under the Plan, (d) the domestic relations order provides that payments to the alternate payee automatically commence when payments to the Participant commence under the Plan and (e) the amount of the Participant's benefits under the Plan is actuarially reduced to reflect any payments made or due the alternate payee."

2. Except as provided herein, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF , the Sponsoring Employer has caused this amendment to be executed by its duly authorized representative and its seal affixed hereto on this 18th day of December, 2007.

WATTS WATER TECHNOLOGIES, INC.

By: /s/ William C. McCartney

(Seal)

Entity Name	Jurisdiction of Organization	Doing Business As
Actuated Controls Ltd.	United Kingdom	
Anderson Barrows Benelux BV	Netherlands	
Black Automatic Controls Ltd.	United Kingdom	
Black Teknigas (Far East) Limited	Hong Kong	
Black Teknigas Limited	United Kingdom	
Core Industries Inc.	Nevada	FEBCO, Mueller Steam Specialty
Dormont Manufacturing Company	Pennsylvania	
Electro Controls Ltd.	United Kingdom	
Giuliani Anello S.r.l.	Italy	
Gripp S.A.S.	France	
Groupe ATS Expansion	France	
HF Scientific, Inc.	Florida	
Kim Olofsson Safe Corporation AB	Sweden	
Orion Enterprises, Inc.	Kansas	Flo-Safe, Laboratory Enterprises, Orion Fittings
Philabel BV	Netherlands	
Porquet S.A.S.	France	
Stern Rubinetti S.r.l.	Italy	
TEAM Precision Pipework, Ltd.	United Kingdom	
Teknigas Ltd.	United Kingdom	
Tianjin Tanggu Watts Valve Co., Ltd.	China	
Tianjin Watts Valve Co. Ltd.	China	
Watts (Ningbo) International Trading Co., Ltd.	China	
Watts (Shanghai) Management Company Limited	China	
Watts Belgium Holding Bvba	Belgium	
Watts Drainage Products, Inc.	Delaware	
Watts Electronics S.A.S.	France	
Watts Europe Services BV	Netherlands	
Watts France Holding S.A.S.	France	
Watts Germany Holding GmbH	Germany	
Watts Industries (Canada), Inc.	Ontario	
Watts Industries Belgium Bvba	Belgium	
Watts Industries Bulgaria EAD	Bulgaria	
Watts Industries Deutschland GmbH	Germany	
Watts Industries Europe BV	Netherlands	
Watts Industries France S.A.S.	France	
Watts Industries Iberica SA	Spain	
Watts Industries Italia S.r.l.	Italy	
Watts Industries Luxembourg	Luxembourg	
Watts Industries Netherlands BV	Netherlands	
Watts Industries Nordic AB	Sweden	
Watts Industries Tunisia S.A.S.	Tunisia	
Watts Industries U.K. Ltd.	United Kingdom	
Watts Industries, Sp. Z.o.o.	Poland	
Watts Instrumentation GmbH	Germany	
Watts Interme AG	Switzerland	
Watts Interme GmbH	Austria	
Watts Interme Srl	Italy	
Watts Italy Holding S.r.l.	Italy	
Watts Londa SpA	Italy	
Watts Microflex NV	Belgium	
Watts Plumbing Technologies (Taizhou) Co. Ltd.	China	
Watts Premier, Inc.	Arizona	
Watts Radiant, Inc.	Delaware	
Watts Regulator Co.	Massachusetts	Savard Plumbing Company, Powers, Ames Fire & Waterworks
Watts Sea Tech, Inc.	Delaware	Sea Tech
Watts Sweden Holding AB	Sweden	
Watts U.K. Ltd.	United Kingdom	
Watts Valve (Changsha) Co., Ltd.	China	

Watts Valve (Ningbo) Co., Ltd.	China	
Watts Valve (Taizhou) Co., Ltd.	China	
Watts Water Quality and Conditioning Products, Inc.	Delaware	Flowmatic Systems, Alamo Water Refiners, Topway Global
Webster Valve, Inc.	New Hampshire	

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following registration statements of Watts Water Technologies, Inc. Nos. 333-142714; 333-32685; 33-37926; 33-69422; 33-64627; 333-105798; 333-108699; 333-115968; and 33-30377 on Form S-8 and Nos. 333-85862; and 333-124615 on Form S-3 of our reports dated February 29, 2008, with respect to the consolidated balance sheets of Watts Water Technologies, Inc. and Subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007, and the related financial statement schedule, and the effectiveness of internal control over financial reporting as of December 31, 2007, which reports appear in the December 31, 2007 annual report on Form 10-K of Watts Water Technologies, Inc.

Our report dated February 29, 2008 on the effectiveness of internal control over financial reporting contains an explanatory paragraph that states that Watts Water Technologies, Inc. acquired Topway Global, Inc. during 2007 (the 2007 acquisition), and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2007, the 2007 acquisition's internal control over financial reporting associated with consolidated total assets of \$19 million and consolidated revenues of \$2 million included in the consolidated financial statements of Watts Water Technologies, Inc. as of and for the year ended December 31, 2007. Our audit of internal control over financial reporting of Watts Water Technologies, Inc. also excluded an evaluation of the internal control over financial reporting of the 2007 acquisition.

As discussed in Note 2 to the consolidated financial statements, Watts Water Technologies, Inc. adopted Statement of Financial Accounting Standard No. 123(R), "Share Based Payment" effective January 1, 2006, utilizing the modified prospective application transition method.

Also, as discussed in Note 2 to the consolidated financial statements, Watts Water Technologies, Inc. adopted the recognition and disclosure provisions of Statement of Financial Accounting Standard No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)" effective December 31, 2006 and its measurement date provisions on January 1, 2007.

Also, as discussed in Note 2 to the consolidated financial statements, Watts Water Technologies, Inc. adopted Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" effective January 1, 2007.

KPMG LLP

Boston, Massachusetts
February 29, 2008

**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 annual report on Form 10-K 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 company as of, and for, the periods presented in this report;
4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: February 29, 2008

/s/ Patrick S. O'Keefe

Patrick S. O'Keefe
Chief Executive Officer

**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 annual report on Form 10-K 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 company as of, and for, the periods presented in this report;
4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: February 29, 2008

/s/ William C. McCartney

William C. McCartney
Chief Executive Officer

**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, to his knowledge, the Company's annual report on Form 10-K 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: February 29, 2008

/s/ Patrick S. O'Keefe

Patrick S. O'Keefe
Chief Executive Officer

**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, to his knowledge, the Company's annual report on Form 10-K 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: February 29, 2008

/s/ William C. McCartney

William C. McCartney
Chief Executive Officer
