WATTS WATER TECHNOLOGIES INC
Form 10-Q
November 08, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission file number 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**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yesx No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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 November 1, 2012**
Class A Common Stock, $0.10 par value	28,404,158
Class B Common Stock, $0.10 par value	6,588,680

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Amounts in millions, except share information)

(Unaudited)

		September 30, 2012		December 31, 2011
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	**$**	**209.5**	$	250.6
Short-term investment securities		**2.1**		4.1
Trade accounts receivable, less allowance for doubtful accounts of $10.5 million at September 30, 2012 and $9.1 million at December 31, 2011		**219.4**		207.1
Inventories, net:				
Raw materials		**109.0**		107.7
Work in process		**23.9**		28.7
Finished goods		**166.0**		147.8
Total Inventories		**298.9**		284.2
Prepaid expenses and other assets		**34.3**		26.6
Deferred income taxes		**28.1**		28.3
Assets held for sale		**13.1**		4.6
Total Current Assets		**805.4**		805.5
PROPERTY, PLANT AND EQUIPMENT:				
Property, plant and equipment, at cost		**503.2**		494.8
Accumulated depreciation		**(285.1)**		(268.1)
Property, plant and equipment, net		**218.1**		226.7
OTHER ASSETS:				
Goodwill		**501.0**		490.4
Intangible assets, net		**149.1**		154.6
Deferred income taxes		**7.7**		10.2
Other, net		**9.7**		10.1
TOTAL ASSETS	$	**1,691.0**	$	1,697.5
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	**128.5**	$	126.5
Accrued expenses and other liabilities		**129.6**		109.2
Accrued compensation and benefits		**41.8**		45.9
Current portion of long-term debt		**77.0**		2.0
Total Current Liabilities		**376.9**		283.6
LONG-TERM DEBT, NET OF CURRENT PORTION		**307.8**		397.4
DEFERRED INCOME TAXES		**55.4**		58.2
OTHER NONCURRENT LIABILITIES		**38.5**		38.5
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 28,221,643 shares at September 30, 2012 and 29,471,414 shares at December 31, 2011		**2.8**		2.9
Class B Common Stock, $0.10 par value; 25,000,000 shares authorized; 10 votes per share; issued and outstanding, 6,753,680 shares at September 30, 2012 and 6,953,680 at December 31, 2011		**0.7**		0.7
Additional paid-in capital		**438.7**		420.1
Retained earnings		**486.8**		515.1
Accumulated other comprehensive loss		**(16.6)**		(19.0)
Total Stockholders Equity		**912.4**		919.8
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$	**1,691.0**	$	1,697.5

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in millions, except per share information)

(Unaudited)

	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	**October 2, 2011**	**September 30, 2012**	**October 2, 2011**
Net sales	$ **361.2**	$ 370.8	**$ 1,096.5**	$ 1,076.4
Cost of goods sold	**231.0**	235.1	**704.9**	689.4
GROSS PROFIT	**130.2**	135.7	**391.6**	387.0
Selling, general and administrative expenses	**93.5**	92.6	**291.4**	287.8
Restructuring and other charges, net	**1.2**	1.9	**3.5**	8.2
Goodwill and other long-lived asset impairment charges	**2.4**		**3.0**	0.3
OPERATING INCOME	**33.1**	41.2	**93.7**	90.7
Other (income) expense:				
Interest income	**(0.1)**	(0.2)	**(0.5)**	(0.7)
Interest expense	**6.1**	6.5	**18.4**	19.1
Other (income) expense, net	**(0.6)**	(0.3)	**(1.5)**	0.4
Total other expense	**5.4**	6.0	**16.4**	18.8
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**27.7**	35.2	**77.3**	71.9
Provision for income taxes	**9.0**	11.6	**24.4**	24.3
NET INCOME FROM CONTINUING OPERATIONS	**18.7**	23.6	**52.9**	47.6
Income from discontinued operations, net of taxes		0.1		1.8
NET INCOME	$ **18.7**	$ 23.7	**$ 52.9**	$ 49.4
BASIC EPS				
Net income per share:				
Continuing operations	**$ 0.53**	$ 0.63	**$ 1.46**	$ 1.27
Discontinued operations				0.05
NET INCOME	**$ 0.53**	$ 0.63	**$ 1.46**	$ 1.32
Weighted average number of shares	**35.1**	37.4	**36.1**	37.5
DILUTED EPS				
Net income per share:				
Continuing operations	**$ 0.53**	$ 0.63	**$ 1.46**	**$** 1.26
Discontinued operations				0.05
NET INCOME	**$ 0.53**	$ 0.63	**$ 1.46**	$ 1.31
Weighted average number of shares	**35.2**	37.5	**36.3**	37.7
Dividends per share	**$ 0.11**	$ 0.11	**$ 0.33**	$ 0.33

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in millions)

(Unaudited)

	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	**October 2, 2011**	**September 30, 2012**	**October 2, 2011**
Net income	**$ 18.7**	$ 23.7	**$ 52.9**	$ 49.4
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	**25.1**	(40.1)	**1.9**	8.6
Defined benefit pension plans:				
Amortization of prior service cost included in net periodic pension cost		0.1		0.3
Amortization of net losses included in net periodic pension cost	**0.2**	0.7	**0.5**	2.1
Defined benefit pension plans	**0.2**	0.8	**0.5**	2.4
Other comprehensive income (loss), net of tax	**25.3**	(39.3)	**2.4**	11.0
Comprehensive income (loss)	**$ 44.0**	(15.6)	**$ 55.3**	60.4

See accompanying notes to consolidated financial statements.

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WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions)

(Unaudited)

	Nine Months Ended	
	September 30, 2012	**October 2, 2011**
OPERATING ACTIVITIES		
Net income	**$ 52.9**	$ 49.4
Less: Income from discontinued operations, net of taxes		1.8
Net income from continuing operations	**52.9**	47.6
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:		
Depreciation	**25.0**	24.6
Amortization of intangibles	**12.1**	13.5
Stock-based compensation	**4.2**	7.0
Deferred income taxes benefit	**(1.1)**	(2.4)
Loss on disposal and impairment of property, plant and equipment and other	**3.5**	0.1
Changes in operating assets and liabilities, net of effects from business acquisitions and divestures:		
Accounts receivable	**(12.4)**	(13.5)
Inventories	**(16.7)**	(16.8)
Prepaid expenses and other assets	**(8.6)**	(2.2)
Accounts payable, accrued expenses and other liabilities	**14.8**	(1.4)
Net cash provided by continuing operations	**73.7**	56.5
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(18.8)**	(16.4)
Proceeds from the sale of property, plant and equipment	**1.1**	0.6
Purchase of short-term investment securities	**(2.1)**	(4.1)
Proceeds from the sale of short-term investment securities	**4.1**	4.1
Other		(0.3)
Business acquisitions, net of cash acquired	**(17.5)**	(162.9)
Net cash used in investing activities	**(33.2)**	(179.0)
FINANCING ACTIVITIES		
Proceeds from long-term debt	**9.2**	184.0
Payments of long-term debt	**(23.4)**	(116.0)
Payment of capital leases and other	**(2.1)**	(1.9)
Proceeds from share transactions under employee stock plans	**9.4**	3.4
Tax benefit of stock awards exercised	**1.6**	0.5
Dividends	**(12.1)**	(12.3)
Payments to repurchase common stock	**(65.8)**	(27.2)
Net cash provided by (used in) financing activities	**(83.2)**	30.5
Effect of exchange rate changes on cash and cash equivalents	**1.6**	8.9
Net cash provided in operating activities of discontinued operations		0.2
DECREASE IN CASH AND CASH EQUIVALENTS	**(41.1)**	(82.9)
Cash and cash equivalents at beginning of year	**250.6**	329.2
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 209.5**	$ 246.3

NON-CASH INVESTING AND FINANCING ACTIVITIES

Acquisition of businesses:				
Fair value of assets acquired	**$**	**26.8**	$	219.1
Cash paid, net of cash acquired		**17.5**		162.9
Liabilities assumed	**$**	**9.3**	$	56.2
Acquisition of fixed assets under financing agreements	**$**	**0.8**	$	4.3
Issuance of stock under management stock purchase plan	**$**	**0.7**	$	0.4
CASH PAID FOR:				
Interest	**$**	**12.7**	$	13.2
Income taxes	**$**	**20.8**	$	26.2

See accompanying notes to consolidated financial statements.

WATTS WATER TECHNOLOGIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included in the Watts Water Technologies, Inc. (the Company) Consolidated Balance Sheet as of September 30, 2012, the Consolidated Statements of Operations for the third quarter and nine months ended September 30, 2012 and October 2, 2011, the Consolidated Statements of Comprehensive Income (Loss) for the third quarter and nine months ended September 30, 2012 and October 2, 2011, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 and October 2, 2011.

The balance sheet at December 31, 2011 has been derived from the audited consolidated financial statements at that date. The accounting policies followed by the Company are described in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. The financial statements included in this report should be read in conjunction with the consolidated financial statements and notes included in the Annual Report on Form 10-K for the year ended December 31, 2011. Operating results for the interim periods presented are not necessarily indicative of the results to be expected for the year ending December 31, 2012.

The Company operates on a 52-week fiscal year ending on December 31st. Any quarterly or nine-month data contained in this Quarterly Report on Form 10-Q generally reflect the results of operations for a 13-week period or 39-week period, respectively.

Certain amounts in the 2011 consolidated financial statements have been reclassified to permit comparison with the 2012 presentation. These reclassifications had no effect on reported results of operations or stockholders equity.

2. Accounting Policies

Estimates

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

Goodwill and Long-Lived Assets

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

	October 2, 2011							
	Gross Balance				Accumulated Impairment Losses			Net Goodwill
	Balance January 1, 2011	Acquired During the Period	Foreign Currency Translation and Other	Balance October 2, 2011	Balance January 1, 2011	Impairment Loss During the Period	Balance October 2, 2011	October 2, 2011
	(in millions)							
North America	$ 213.8	$ 4.3	$	$ 218.1	$ (22.0)	$	$ (22.0)	$ 196.1
Europe, Middle East and Africa (EMEA)	228.1	65.7	(1.8)	292.0				292.0
Asia	8.1	4.3	0.3	12.7				12.7
Total	$ 450.0	$ 74.3	$ (1.5)	$ 522.8	$ (22.0)	$	$ (22.0)	$ 500.8

	September 30, 2012							
	Gross Balance				Accumulated Impairment Losses			Net Goodwill
	Balance January 1, 2012	Acquired During the Period	Foreign Currency Translation and Other	Balance September 30, 2012	Balance January 1, 2012	Impairment Loss During the Period	Balance September 30, 2012	September 30, 2012
	(in millions)							
North America	**$ 215.6**	**$ 13.3**	**$ (1.5)**	**$ 227.4**	**$ (23.2)**	**$ (1.0)**	**$ (24.2)**	**$ 203.2**
EMEA	**285.3**		**(0.2)**	**285.1**				**285.1**
Asia	**12.7**			**12.7**				**12.7**
Total	**$ 513.6**	**$ 13.3**	**$ (1.7)**	**$ 525.2**	**$ (23.2)**	**$ (1.0)**	**$ (24.2)**	**$ 501.0**

On January 31, 2012, the Company completed the acquisition of tekmar Control Systems (tekmar) in a share purchase transaction. A designer and manufacturer of control systems used in heating, ventilation, and air conditioning applications, tekmar is expected to enhance the Company s hydronic systems product offerings in the U.S. and Canada. The initial purchase price paid was CAD $18.0 million, with post-closing adjustments related to working capital and an earnout based on the attainment of certain future earnings levels. The initial purchase price paid was equal to approximately $17.8 million based on the exchange rate of Canadian dollar to U.S.

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dollar as of January 31, 2012. The total purchase price will not exceed CAD $26.2 million. The Company is accounting for the transaction as a business combination. The Company completed a preliminary purchase price allocation that resulted in the recognition of $13.3 million in goodwill and $10.1 million in intangible assets. Intangible assets consist primarily of acquired technology with an estimated life of 10 years, distributor relationships with an estimated life of 7 years, and a trade name with an estimated life of 20 years. The goodwill is not expected to be deductible for tax purposes.

The Company has made numerous acquisitions over the years which included the recognition of a significant amount of goodwill and indefinite-lived intangible assets. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually or more frequently if events or circumstances indicate that it is more likely than not that they might be impaired, such as from a change in business conditions. The Company performs its annual impairment assessment of goodwill and indefinite-lived intangible assets in the fourth quarter of each year. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, and determination of the fair value of each reporting unit. The Company has determined it has eight reporting units including Residential and Commercial, Dormont, Drains & Water re-use, BRAE, Water Quality, EMEA, Blücher, and Asia. Our Water Quality reporting unit does not have goodwill.

As of October 30, 2011, the annual impairment analysis date, the fair value of the Company s EMEA reporting unit exceeded the carrying value by approximately 9%. Operating results for the EMEA reporting unit have been hindered by the downturn in the economic environment in Europe and continued to fall below expectations during the six months ended July 1, 2012, triggering the decision to update the impairment analysis during the second quarter. As a result of the updated fair value assessment, it was determined that the fair value of the EMEA reporting unit continues to exceed its carrying value, a result of a decrease in discount rate and a reduction of net debt offset by lower short-term projections. The Company also performed an analysis on the long-lived assets in the EMEA reporting unit as a result of the triggering event and concluded that these assets were not impaired.

Although the EMEA reporting unit met expectations during the quarter ended September 30, 2012, should the EMEA reporting unit s operating results decline further because the European marketplace deteriorates beyond our current expectations or should interest rates increase, then the reporting unit s goodwill may be at risk for impairment in the future. The EMEA reporting unit s goodwill balance as of September 30, 2012 was $210.7 million.

Operating results for the Blue Ridge Atlantic Enterprises, Inc. (BRAE) reporting unit in North America continued to fall below expectations during the nine months ended September 30, 2012, triggering the decision to update the impairment analysis during the third quarter. As a result, the Company recorded a pre-tax goodwill impairment charge of $1.0 million. Because expectations have been lowered, the Company also reviewed the BRAE earnout calculation and recorded a $1.0 million reduction in the contingent earnout liability during the third quarter (see Note 5). The Company estimated the fair value of the reporting unit using the expected present value of future cash flows. The BRAE reporting unit s goodwill balance as of September 30, 2012 was $0.3 million.

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. Recoverability of intangible assets with estimable lives and other long-lived assets are 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 weighted average cost of capital based on the market and guideline public companies 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.

Intangible assets include the following:

	September 30, 2012			December 31, 2011		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
			(in millions)			
Patents	**$ 16.5**	**$ (11.5)**	**$ 5.0**	$ 16.5	$ (10.8)	$ 5.7
Customer relationships	**133.8**	**(66.5)**	**67.3**	135.8	(57.7)	78.1
Technology	**28.6**	**(8.7)**	**19.9**	19.8	(7.1)	12.7
Trade Names	**13.3**	**(1.7)**	**11.6**	13.4	(0.8)	12.6
Other	**8.6**	**(5.5)**	**3.1**	8.5	(5.4)	3.1
Total amortizable intangibles	**200.8**	**(93.9)**	**106.9**	194.0	(81.8)	112.2
Indefinite-lived intangible assets	**42.2**		**42.2**	42.4		42.4
Total	**$ 243.0**	**$ (93.9)**	**$ 149.1**	$ 236.4	$ (81.8)	$ 154.6

Aggregate amortization expense for amortizable intangible assets for the third quarters of 2012 and 2011 was $3.7 million and $4.2 million, respectively, and for the first nine months of 2012 and 2011 was $12.1 million and $13.5 million, respectively. Additionally, future amortization expense for the next five years on amortizable intangible assets is expected to be approximately $3.8 million for the remainder of 2012, $15.0 million for 2013, $14.8 million for 2014, $14.5 million for 2015 and $14.1 million for 2016. Amortization expense is recorded 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 9.7 years. Patents, customer relationships, technology, trade names and other

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amortizable intangibles have weighted-average remaining lives of 6.6 years, 6.8 years, 12.0 years, 11.9 years and 41.8 years, respectively. Intangible assets not subject to amortization consist of certain trademarks and trade names.

Stock-Based Compensation

The Company maintains three stock incentive plans under which key employees and non-employee members of the Company s Board of 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 stock options, which are currently being granted only to employees. 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. The Company issued 375,800 and 280,000 options to key employees under the 2004 Stock Incentive Plan in the third quarter and in the first nine months of 2012 and 2011, respectively.

The fair value of each option issued 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:

	2012	**2011**
Expected life (years)	**6.0**	6.0
Expected stock price volatility	**41.2%**	40.9%
Expected dividend yield	**1.2%**	1.5%
Risk-free interest rate	**0.9%**	1.6%

The above assumptions were used to determine the weighted average grant-date fair value of stock options of $13.49 and $10.19 in 2012 and 2011, respectively.

The Company has also granted shares of restricted stock to key employees and stock awards to non-employee members of the Company s Board of Directors under the 2004 Stock Incentive Plan. Stock awards to non-employee members of the Company s Board of Directors vest immediately, and employees restricted stock awards vest 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 issued 152,765 and 107,786 shares of restricted stock under the 2004 Stock Incentive Plan in the third quarters of 2012 and 2011, respectively. The Company issued 152,765 and 109,186 shares of restricted stock under the 2004 Stock Incentive Plan in the first nine months of 2012 and 2011, respectively. During the third quarter and first nine months of 2012, the Company granted an aggregate of 16,835 of stock awards to non-employee members of the Company s Board of Directors under the 2004 Stock Incentive Plan, of which 12,025 were deferred pursuant to the Company s stock deferral program.

The Company also has a Management Stock Purchase Plan that allows for the purchase of restricted stock units (RSUs) by 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 represents one share of Class A Common Stock and is purchased by the employee at 67% of the fair market value of the Company s Class A Common Stock on the date of grant. RSUs vest annually over a three-year period from the grant date and receipt of the shares underlying RSUs is deferred for a minimum of three years or such greater number of years as is chosen by the employee. An aggregate of 2,000,000 shares of Class A Common Stock may be issued under the Management Stock Purchase Plan. The Company granted 63,739 RSUs and 96,454 RSUs in

the first nine months of 2012 and 2011, respectively.

The fair value of each RSU 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:

	2012	**2011**
Expected life (years)	**3.0**	3.0
Expected stock price volatility	**38.3%**	44.9%
Expected dividend yield	**1.1%**	1.2%
Risk-free interest rate	**0.4%**	1.2%

The above assumptions were used to determine the weighted average grant-date fair value of RSUs of $15.68 and $16.25 in 2012 and 2011, respectively.

A more detailed description of each of these stock and stock option plans can be found in Note 12 of Notes to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

On May 23, 2012, William C. McCartney provided notice of his intention to retire as Chief Financial Officer of the Company. On

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June 14, 2012, the Company entered into a retention agreement with Mr. McCartney. Pursuant to the retention agreement, Mr. McCartney will continue employment with the Company until December 14, 2012, and will assist the Company in identifying a successor and transitioning his responsibilities and duties to the new Chief Financial Officer. Pursuant to Mr. McCartney fulfilling his duties under the retention agreement, the Company will record a pre-tax charge of approximately $1.5 million over the retention period, consisting of expected cash payments of $0.7 million and a non-cash charge of $0.8 million for the modification of stock options and restricted stock awards. In addition, Mr. McCartney will receive a performance bonus he would have been entitled to had he been employed by the Company through December 31, 2012 (see Note 13 regarding appointment of new Executive Vice President and Chief Financial Officer).

On January 26, 2011, Patrick S. O Keefe resigned from his positions as Chief Executive Officer, President and Director. Pursuant to a separation agreement, the Company recorded a charge of $6.3 million, consisting of $3.3 million in expected cash severance and a non-cash charge of $3.0 million for the modification of stock options and restricted stock awards.

Shipping and Handling

The Company s shipping costs included in selling, general and administrative expenses were $9.5 million and $9.7 million for the third quarters of 2012 and 2011, respectively, and were $28.3 million and $28.4 million for the first nine months of 2012 and 2011, respectively.

Research and Development

Research and development costs included in selling, general and administrative expenses were $5.0 million and $5.3 million for the third quarters of 2012 and 2011, respectively, and were $15.7 million and $16.0 million for the first nine months of 2012 and 2011, respectively.

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.

New Accounting Standards

In December 2011, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting guidance for disclosure of offsetting assets and liabilities and related arrangements. The amendment expands the disclosure requirements in that entities will be required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The amendment is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013, and shall be applied retrospectively. The Company does not expect that the adoption of this accounting pronouncement will have a material impact on its financial statements.

In July 2012, the FASB issued an amendment to the requirements for indefinite-lived intangible asset impairment testing. The Company has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, after assessing the totality of events or circumstances, the Company determines it is more likely than not that the fair value of an indefinite-lived intangible asset is greater than its carrying amount, then performing the impairment test is unnecessary. The Company intends to adopt this new standard effective with its annual impairment testing date of October 30, for the year ending December 31, 2012.

3. Discontinued Operations and Assets Held For Sale

In the first quarter of 2010, the Company recorded an estimated reserve of $5.3 million in discontinued operations in connection with its investigation of potential violations of the Foreign Corrupt Practices Act (FCPA) at Watts Valve (Changsha) Co., Ltd. (CWV), a former indirect wholly-owned subsidiary of the Company in China. On October 13, 2011, the Company entered into a settlement for $3.8 million with the Securities and Exchange Commission to resolve allegations concerning potential violations of the FCPA at CWV. During the quarter ended July 3, 2011, the Company revised the reserve to $3.8 million based on the settlement. See Note 3 of the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

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	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(in millions)			
Reserve release - FCPA matter (CWV)	$	$	$	$ 1.7
Gain on disposal TEAM		0.1		0.4
Income before income taxes		0.1		2.1
Income tax expense				0.3
Income from discontinued operations, net of taxes	$	$ 0.1	$	$ 1.8

During the quarter ended July 1, 2012, the Company s Board of Directors approved the disposal of an operation within the Company s North America segment. The Company evaluated the fair value less cost to sell the net assets and determined that the fair value exceeded the carrying value. The Company recorded the net assets of $10.7 million, representing gross assets of $13.6 million less liabilities of $2.9 million, as assets held for sale. The revenues and results of operations are not material to the Company. The Company will not have continuing involvement after a sale is completed.

4. Financial Instruments and Derivative Instruments

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including foreign currency derivatives, deferred compensation plan assets and related liability, and contingent consideration. There were no cash flow hedges as of September 30, 2012 and December 31, 2011. The fair values of these certain financial assets and liabilities were determined using the following inputs at September 30, 2012 and December 31, 2011:

		Fair Value Measurements at September 30, 2012 Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets				
Plan asset for deferred compensation(1)	**$ 4.3**	**$ 4.3**	**$**	**$**
Total assets	**$ 4.3**	**$ 4.3**	**$**	**$**
Liabilities				
Plan liability for deferred compensation(2)	**$ 4.3**	**$ 4.3**	**$**	**$**
Contingent consideration(3)	**5.4**			**5.4**
Total liabilities	**$ 9.7**	**$ 4.3**	**$**	**$ 5.4**

		Fair Value Measurements at December 31, 2011 Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in millions)			
Assets				
Plan asset for deferred compensation(1)	**$ 4.0**	**$ 4.0**	**$**	**$**
Total assets	**$ 4.0**	**$ 4.0**	**$**	**$**

Liabilities				
Plan liability for deferred compensation(2)	**$ 4.0**	**$ 4.0**	**$**	**$**
Contingent consideration(3)	**1.1**			**1.1**
Total liabilities	**$ 5.1**	**$ 4.0**	**$**	**$ 1.1**

(1) Included in other, net on the Company s consolidated balance sheet.

(2) Included in accrued compensation and benefits on the Company s consolidated balance sheet.

(3) Included in other noncurrent liabilities and accrued expenses and other liabilities on the Company s consolidated balance sheet.

The table below provides a summary of the changes in fair value of all financial assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the period December 31, 2011 to September 30, 2012.

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	Balance December 31, 2011	Purchases, sales, settlements, net	Total realized and unrealized gains (losses) included in: Earnings	Comprehensive income	Balance September 30, 2012
			(in millions)		
Contingent consideration	$ 1.1	$ 5.1	$ (0.9)	$ 0.1	$ 5.4

In 2010, a contingent liability of $1.9 million was recognized as an estimate of the acquisition date fair value of the contingent consideration in the BRAE acquisition. This liability was classified as Level 3 under the fair value hierarchy as it was based on the weighted probability of achievement of a future performance metric as of the date of the acquisition, which was not observable in the market. During the year ended December 31, 2011, and the nine months ended September 30, 2012, the estimate of the fair value of the contingent consideration was reduced to $1.1 million and subsequently to $0.2 million, based on the revised probability of achievement of the future performance metric. Failure to meet the performance metric would reduce this liability to zero, while complete achievement would increase this liability to the full remaining purchase price of $4.8 million.

In connection with the tekmar Control Systems acquisition in 2012, a contingent liability of $5.1 million was recognized as the estimate of the acquisition date fair value of the contingent consideration (see Note 12). This liability was classified as Level 3 under the fair value hierarchy as it was based on the probability of achievement of a future performance metric as of the date of the acquisition, which was not observable in the market. Failure to meet the performance metrics would reduce this liability to zero; while complete achievement would increase this liability to the full remaining purchase price of CAD $8.2 million.

Short-term investment securities as of September 30, 2012 consist of a certificate of deposit with a remaining maturity of greater than three months at the date of purchase, for which the carrying amount is a reasonable estimate of fair value.

Cash equivalents consist of instruments with remaining maturities of three months or less at the date of purchase and consist primarily of certificates of deposit and money market funds, for which the carrying amount is a reasonable estimate of fair value.

The Company uses financial instruments from time to time to enhance its ability to manage risk, including foreign currency and commodity pricing exposures, which exist as part of its ongoing business operations. The use of derivatives exposes the Company to counterparty credit risk for nonperformance and to market risk related to changes in currency exchange rates and commodity prices. The Company manages its exposure to counterparty credit risk through diversification of counterparties. The Company s counterparties in derivative transactions are substantial commercial banks with significant experience using such derivative instruments. The impact of market risk on the fair value and cash flows of the Company s derivative instruments is monitored and the Company restricts the use of derivative financial instruments to hedging activities. The Company does not enter into contracts for trading purposes nor does the Company enter into any contracts for speculative purposes. The use of derivative instruments is approved by senior management under written guidelines.

The Company has exposure to a number of foreign currency rates, including the Canadian Dollar, the Euro, the Chinese Yuan and the British Pound. To manage this risk, the Company generally uses a layering methodology whereby at the end of any quarter the Company has generally entered into forward exchange contracts which hedge approximately 50% of the projected intercompany purchase transactions for the next twelve months. The Company primarily uses this strategy for the purchases between Canada and the U.S. The average volume of contracts can vary but generally is approximately $2 million to $15 million in open contracts at the end of any given quarter. At September 30, 2012, there were no open contracts. The Company accounts for the forward exchange contracts as an economic hedge. Realized and unrealized gains and losses on the contracts are recognized in other (income) expense in the consolidated statement of operations. 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.

Fair Value

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

The fair values of the Company s 5.47% senior notes due 2013, 5.85% senior notes due 2016, and 5.05% senior notes due 2020, are based on a discounted cash flow model using comparable industrial companies, the Company s credit metrics, the Company s size, as well as current market interest rates quoted in active markets and are classified within Level 2 of the valuation hierarchy. 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:

	September 30, 2012	**December 31, 2011**
	(in millions)	
Carrying amount	**$ 384.8**	$ 399.4
Estimated fair value	**$ 422.4**	$ 440.5

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5. Restructuring and Other Charges, Net

The Company s Board of Directors approves all major restructuring programs that involve the discontinuance of product lines or the shutdown of facilities. From time to time, the Company takes additional restructuring actions, including involuntary terminations that are not part of a major program. The Company accounts for these costs in the period that the individual employees are notified or the liability is incurred. These costs are included in restructuring and other charges in the Company s consolidated statements of operations. In April 2011, the Board approved an integration program in association with the acquisition of Danfoss Socla S.A.S. (Socla). The program was designed to integrate certain operations and management structures of Socla with a total estimated pre-tax cost of $6.4 million with costs being incurred through 2012. As of September 30, 2012, the Company revised its forecast to $4.4 million due to lower than expected severance costs.

The Company also periodically initiates other actions which are not part of a major program. In 2011, the Company initiated restructuring activities with respect to the Company s operating facilities in Europe, which included the closure of a facility. The Europe restructuring activities are expected to include pre-tax costs of approximately $2.6 million, including costs for severance and shut-down costs. The total net after-tax charge is $1.8 million with costs being incurred through 2012. In 2012, the Company commenced restructuring activities in North America to relocate certain production activities, which include the closure of two manufacturing sites occurring through 2013. Total expected costs are $2.8 million, including severance and shutdown costs. The net after tax charge of $1.8 million will be incurred through the middle of 2013. As of September 30, 2012, the Company revised its plans to reduce the expected costs to $1.8 million due to the elimination of a plant closure.

In March 2010, in connection with the Company s manufacturing footprint consolidation, the Company closed the operations of Tianjin Watts Valve Company Ltd. (TWVC) and relocated its manufacturing to other facilities. On April 12, 2010, the Company signed a definitive equity transfer agreement with a third party to sell the Company s equity ownership and remaining assets of TWVC. The sale was finalized in the fourth quarter of 2011. The Company received net proceeds of approximately $6.1 million from the sale and recorded a receivable for the remaining proceeds. The Company recognized a net pre-tax gain of $7.7 million and an after-tax gain of approximately $11.4 million relating mainly to the recognition of a cumulative translation adjustment and a tax benefit related to the reversal of a tax claw back in China. During the quarter ended September 30, 2012, the Company recorded a charge of $1.6 million related to an adjustment to the gain on disposal of TWVC.

The Company recorded a credit in restructuring and other charges, net related to the reduction in the contingent liability for the anticipated earnout payment in connection with the BRAE acquisition of $1.0 million.

A summary of the pre-tax cost by restructuring program is as follows:

	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	**October 2, 2011**	**September 30, 2012**	**October 2, 2011**
	(in millions)			
Restructuring costs:				
2010 Actions	**$ 0.1**	$ 0.1	**$ 0.2**	$ 2.8
2011 Actions		0.7	**0.6**	4.3
Other Actions	**0.5**	1.1	**2.1**	1.1
Total restructuring charges	**0.6**	1.9	**2.9**	8.2
Adjustment to gain on sale of TWVC	**1.6**		**1.6**	

Adjustment related to contingent liability reduction		**(1.0)**				**(1.0)**		
Total restructuring and other charges, net	**$**	**1.2**	$	1.9	**$**	**3.5**	$	8.2

The Company recorded net pre-tax restructuring and other charges, net in its business segments as follows:

	Third Quarter Ended				Nine Months Ended			
	September 30, 2012		**October 2, 2011**		**September 30, 2012**		**October 2, 2011**	
			(in millions)					
North America	**$**	**(0.8)**	$	1.1	**$**	**(0.3)**	$	1.2
EMEA		**0.4**		0.8		**2.2**		6.8
Asia		**1.6**				**1.6**		0.2
Total	**$**	**1.2**	$	1.9	**$**	**3.5**	$	8.2

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2011 Actions

The following table summarizes the total expected, incurred and remaining pre-tax severance costs for the 2011 Socla integration program:

Reportable Segment		Total Expected Costs		Incurred through September 30, 2012 (in millions)		Remaining Costs at September 30, 2012
EMEA	$	4.2	$	3.5	**$**	**0.7**
Asia		0.2		0.2		
Total	$	4.4	$	3.7	**$**	**0.7**

The Company expects to spend the remaining costs by the end of 2012.

Details of the Company s 2011 Socla integration reserves for severance for the nine months ended September 30, 2012 are as follows:

		Nine Months Ended September, 2012 (in millions)
Balance at December 31, 2011	$	0.4
Net pre-tax restructuring charges		0.5
Utilization and foreign currency impact		(0.3)
Balance at April 1, 2012	$	0.6
Net pre-tax restructuring charges		0.1
Utilization and foreign currency impact		(0.6)
Balance at July 1, 2012	$	0.1
Net pre-tax restructuring charges		
Utilization and foreign currency impact		**0.1**
Balance at September 30, 2012	**$**	

The following table summarizes expected, incurred and remaining severance costs for 2011 Socla integration actions:

		Incurred through September 30, 2012 (in millions)
Expected costs	$	4.4
Costs incurred 2011		(3.1)
Costs incurred quarter ended April 1, 2012		(0.5)
Costs incurred quarter ended July 1, 2012		(0.1)
Costs incurred quarter ended September 30, 2012		
Remaining costs at September 30, 2012	**$**	**0.7**

6. Earnings per Share

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

	For the Third Quarter Ended September 30, 2012			For the Third Quarter Ended October 2, 2011		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
	(amounts in millions, except per share amounts)					
Basic EPS						
Net income:						
Continuing operations	**$ 18.7**	**35.1**	**$ 0.53**	$ 23.6	37.4	$ 0.63
Discontinued operations				0.1		
Net income	**$ 18.7**		**$ 0.53**	$ 23.7		$ 0.63
Effect of dilutive securities						
Common stock equivalents		**0.1**			0.1	
Diluted EPS						
Net income:						
Continuing operations	**$ 18.7**		**$ 0.53**	$ 23.6		$ 0.63
Discontinued operations				0.1		
Net income	**$ 18.7**	**35.2**	**$ 0.53**	$ 23.7	37.5	$ 0.63

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Options to purchase 0.3 million and 0.8 million shares of Class A Common Stock were outstanding during the third quarters of 2012 and 2011, respectively, but were not included in the computation of diluted EPS because to do so would be anti-dilutive.

	For the Nine Months Ended October 30, 2012			For the Nine Months Ended October 2, 2011		
	Income (Numerator)	**Shares (Denominator)**	**Per Share Amount**	**Income (Numerator)**	**Shares (Denominator)**	**Per Share Amount**
	(amounts in millions, except per share amounts)					
Basic EPS						
Net income:						
Continuing operations	**$ 52.9**	**36.1**	**$ 1.46**	$ 47.6	37.5	$ 1.27
Discontinued operations				1.8		0.05
Net income	**$ 52.9**		**$ 1.46**	$ 49.4		$ 1.32
Effect of dilutive securities						
Common stock equivalents		**0.2**			0.2	
Diluted EPS						
Net income:						
Continuing operations	**$ 52.9**		**$ 1.46**	$ 47.6		$ 1.26
Discontinued operations				1.8		0.05
Net income	**$ 52.9**	**36.3**	**$ 1.46**	$ 49.4	37.7	$ 1.31

Options to purchase 0.3 million and 0.5 million shares of Class A Common Stock were outstanding during the first nine months of 2012 and 2011, respectively, but were not included in the computation of diluted EPS because to do so would be anti-dilutive.

On May 16, 2012, the Board of Directors authorized a stock repurchase program of up to two million shares of the Company s Class A Common Stock. The stock repurchase program was completed in July 2012, as the Company repurchased the entire 2.0 million shares of Class A common stock at a cost of approximately $65.8 million.

7. Segment Information

The Company operates in three geographic segments: North America, EMEA, and Asia. Each of these segments 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.

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

	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	**October 2, 2011**	**September 30, 2012**	**October 2, 2011**

	(in millions)			
Net Sales				
North America	**$ 207.4**	$ 205.6	**$ 639.2**	$ 619.7
EMEA	**146.5**	159.3	**438.5**	441.1
Asia	**7.3**	5.9	**18.8**	15.6
Consolidated net sales	**$ 361.2**	$ 370.8	**$ 1,096.5**	$ 1,076.4
Operating income (loss)				
North America	**$ 25.9**	$ 31.4	**$ 72.8**	$ 84.4
EMEA	**15.1**	14.6	**39.9**	31.2
Asia	**0.8**	1.0	**4.3**	2.7
Subtotal reportable segments	**41.8**	47.0	**117.0**	118.3
Corporate (*)	**(8.7)**	(5.8)	**(23.3)**	(27.6)
Consolidated operating income	**33.1**	41.2	**93.7**	90.7
Interest income	**0.1**	0.2	**0.5**	0.7
Interest expense	**(6.1)**	(6.5)	**(18.4)**	(19.1)
Other	**0.6**	0.3	**1.5**	(0.4)
Income from continuing operations before income taxes	**$ 27.7**	$ 35.2	**$ 77.3**	$ 71.9
Capital Expenditures				
North America	**$ 5.8**	$ 2.0	**$ 10.2**	$ 7.3
EMEA	**2.9**	2.3	**7.5**	8.6
Asia	**0.5**	0.1	**1.1**	0.5
Consolidated capital expenditures	**$ 9.2**	$ 4.4	**$ 18.8**	$ 16.4
Depreciation and Amortization				
North America	**$ 5.1**	$ 4.7	**$ 15.1**	$ 14.3
EMEA	**6.4**	7.5	**20.5**	22.3
Asia	**0.5**	0.5	**1.5**	1.5
Consolidated depreciation and amortization	**$ 12.0**	$ 12.7	**$ 37.1**	$ 38.1
Identifiable Assets (at end of period)				
North America			**$ 805.3**	$ 822.5
EMEA			**794.4**	876.5
Asia			**91.3**	92.4
Discontinued operations				1.4
Consolidated identifiable assets			**$ 1,691.0**	$ 1,792.8
Property, plant and equipment, net (at end of period)				
North America			**$ 76.3**	$ 80.9
EMEA			**127.2**	140.9
Asia			**14.6**	15.2
Consolidated property, plant and equipment, net			**$ 218.1**	$ 237.0

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* Corporate expenses are primarily for administrative compensation expense, internal controls costs, 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.

The above operating segments are presented on a basis consistent with the presentation included in the Company s December 31, 2011 consolidated financial statements included in its Annual Report on Form 10-K.

The following includes U.S. net sales and U.S. property, plant and equipment of the Company s North America segment:

	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(in millions)			
U.S. net sales	**$ 184.8**	$ 185.1	**$ 574.5**	$ 560.6
U.S. property, plant and equipment (at end of period)			**$ 70.6**	$ 76.0

The following includes intersegment sales for North America, EMEA and Asia:

	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	October 2, 2011	September 30, 2012	October 2, 2011
	(in millions)			
Intersegment Sales				
North America	**$ 1.3**	$ 0.9	**$ 3.9**	$ 2.6
EMEA	**3.3**	2.2	**7.9**	6.4
Asia	**35.9**	29.1	**102.3**	97.0
Intersegment sales	**$ 40.5**	$ 32.2	**$ 114.1**	$ 106.0

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The North America segment includes $13.1 million in assets held for sale at September 30, 2012. The North America segment and the Asia segment include $4.6 million and $6.4 million, respectively, in assets held for sale at October 2, 2011.

The Company sells its products into various end markets around the world and groups net sales to third parties into four product categories. Because many of the Company s sales are through distributors and third-party manufacturers representatives, a portion of the product categorization is based on management s understanding of final product use and, as such, allocations have been made to align sales into a product category. Net sales to third parties for the four product categories are as follows:

	Third Quarter Ended				Nine Months Ended			
	September 30, 2012		October 2, 2011		September 30, 2012		October 2, 2011	
	(in millions)							
Net Sales								
Residential & commercial flow control	**$**	**192.2**	$	200.5	**$**	**604.6**	$	566.1
HVAC & gas		**114.6**		116.9		**331.2**		352.5
Drains & water re-use		**36.7**		36.1		**105.5**		103.8
Water quality		**17.7**		17.3		**55.2**		54.0
Consolidated net sales	**$**	**361.2**	$	370.8	**$**	**1,096.5**	$	1,076.4

8. Accumulated Other Comprehensive Income (Loss)

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

	Foreign Currency Translation		Pension Adjustment		Accumulated Other Comprehensive Income (Loss)	
			(in millions)			
Balance December 31, 2011	**$**	**5.6**	**$**	**(24.6)**	**$**	**(19.0)**
Change in period		**16.5**		**0.2**		**16.7**
Balance April 1, 2012	**$**	**22.1**	**$**	**(24.4)**	**$**	**(2.3)**
Change in period		**(39.7)**		**0.1**		**(39.6)**
Balance July 1, 2012	**$**	**(17.6)**	**$**	**(24.3)**	**$**	**(41.9)**
Change in period		**25.1**		**0.2**		**25.3**
Balance September 30, 2012	**$**	**7.5**	**$**	**(24.1)**	**$**	**(16.6)**
Balance December 31, 2010	$	24.9	$	(25.2)	$	(0.3)
Change in period		34.0		0.8		34.8
Balance April 3, 2011	$	58.9	$	(24.4)	$	34.5
Change in period		14.7		0.8		15.5
Balance July 3, 2011	$	73.6	$	(23.6)	$	50.0
Change in period		(40.1)		0.8		(39.3)
Balance October 2, 2011	$	33.5	$	(22.8)	$	10.7

Accumulated other comprehensive income (loss) in the consolidated balance sheets as of September 30, 2012 and October 2, 2011 consists primarily of cumulative translation adjustments and pension related net actuarial loss and prior service costs.

9. Debt

The Company s credit agreement (the Credit Agreement) provides for a multi-currency $300.0 million, five-year, senior unsecured revolving credit facility which may be increased by an additional $150.0 million under certain circumstances and subject to the terms of the Credit Agreement. The Credit Agreement has a sublimit of up to $75.0 million in letters of credit. The Credit Agreement matures on June 18, 2015.

Borrowings outstanding under the Credit Agreement bear interest at a fluctuating rate per annum equal to (i) in the case of Eurocurrency rate loans, the British Bankers Association LIBOR rate plus an applicable percentage, ranging from 1.70% to 2.30%, determined by reference to the Company s consolidated leverage ratio plus, in the case of certain lenders, a mandatory cost calculated in accordance with the terms of the Credit Agreement, or (ii) in the case of base rate loans and swing line loans, the highest of (a) the federal funds rate plus 0.5%, (b) the rate of interest in effect for such day as announced by Bank of America, N.A. as its prime rate, and (c) the British Bankers Association LIBOR rate plus 1.0%, plus an applicable percentage, ranging from 0.70% to 1.30%, determined by reference to the Company s consolidated leverage ratio. In addition to paying interest under the Credit Agreement, the Company is also required to pay certain fees in connection with the credit facility, including, but not limited to, a facility fee and letter

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of credit fees. Under the Credit Agreement, the Company is required to satisfy and maintain specified financial ratios and other financial condition tests. The Company may repay loans outstanding under the Credit Agreement from time to time without premium or penalty, other than customary breakage costs, if any, and subject to the terms of the Credit Agreement. As of September 30, 2012, the Company was in compliance with all covenants related to the Credit Agreement and had $265.4 million of unused and available credit under the Credit Agreement and $34.6 million of stand-by letters of credit outstanding on the Credit Agreement. The Company did not have any borrowings outstanding under the Credit Agreement at September 30, 2012.

The Company is a party to several note agreements as further detailed in Note 10 of Notes to Consolidated Financial Statements of the Annual Report on Form 10-K for the year ended December 31, 2011. These note agreements require the Company to maintain a fixed charge coverage ratio of consolidated EBITDA plus consolidated rent expense during the period to consolidated fixed charges. Consolidated fixed charges are the sum of consolidated interest expense for the period and consolidated rent expense. As of September 30, 2012, the Company was in compliance with all covenants regarding these note agreements. The note agreements include $75.0 million of unsecured senior notes maturing on May 15, 2013 which have been included in the current portion of long-term debt in the Company s balance sheet.

10. Contingencies and Environmental Remediation

As disclosed in Part I, Item 1, Product Liability, Environmental and Other Litigation Matters of the Company s Annual Report on Form 10-K for the year ended December 31, 2011, the Company was party to certain litigation. There have been no material developments with respect to the Company s contingencies and environmental remediation proceedings during the nine months ended September 30, 2012 except as noted below.

On March 8, 2012, Watts Water Technologies, Inc., Watts Regulator Co., and Watts Plumbing Technologies, Inc. were named as defendants in a putative nationwide class action complaint filed in the U.S. District Court for the Northern District of California seeking to recover damages and other relief based on the alleged failure of toilet connectors. The complaint seeks among other items, damages in an unspecified amount, replacement costs, injunctive relief, and attorneys fees and costs.

The Company is unable to estimate a range of reasonably possible loss for the above matter in which damages have not been specified because: (i) the proceedings are in the early stages; (ii) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class; (iii) there is uncertainty as to pending motions; (iv) there are significant factual issues to be resolved; and (v) there are novel legal issues presented. However, based on information currently known to the Company, it does not believe that these proceedings will have a material effect on its financial position, results of operations, cash flows or liquidity.

11. Defined Benefit Plans

The Company sponsors funded and unfunded non-contributing defined benefit pension plans that together cover substantially all of its U.S. 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.

On October 31, 2011, the Company s Board of Directors voted to cease accruals of additional benefits effective December 31, 2011 under both the Company s Pension Plan and Supplemental Employees Retirement Plan. In 2011, the Company recorded a curtailment charge of approximately $1.5 million to write-off previously unrecognized prior service costs and reduced the projected benefit obligation by $12.5 million.

The components of net periodic benefit cost are as follows:

	Third Quarter Ended		Nine Months Ended	
	September 30, 2012	**October 2, 2011**	**September 30, 2012**	**October 2, 2011**
	(in millions)			
Service cost benefits earned and administrative costs	**$ 0.2**	$ 1.3	**$ 0.6**	$ 3.9
Interest costs on benefits obligation	**1.4**	1.5	**4.2**	4.5
Expected return on assets	**(1.7)**	(1.8)	**(5.2)**	(5.4)
Prior service costs and net actuarial loss amortization	**0.1**	0.8	**0.4**	2.4
Net periodic benefit cost	**$**	$ 1.8	**$**	$ 5.4

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

	Nine Months Ended	
	September 30, 2012	**October 2, 2011**
	(in millions)	
Employer contributions	**$ 0.6**	$ 7.7

The Company expects to contribute approximately $0.2 million to its pension plans for the remainder of 2012.

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12. Business Acquisitions

On April 29, 2011, the Company completed the acquisition of Socla and the related water controls business of certain other entities controlled by Danfoss A/S, in a share and asset purchase transaction. The final consideration paid was EUR 116.3 million. The purchase price was financed with cash on hand and euro-based borrowings under our Credit Agreement. The purchase price was equal to approximately $172.4 million based on the exchange rate of Euro to U.S. dollars as of April 29, 2011.

The Company accounted for the transaction as a business combination. The Company completed a purchase price allocation that resulted in the recognition of $79.7 million in goodwill and $39.9 million in intangible assets. Intangible assets consist primarily of customer relationships with estimated lives of 10 years and trade names with either 20-year lives or indefinite lives. The goodwill is attributable to the workforce of Socla and the synergies that are expected to arise as a result of the acquisition. The goodwill is not expected to be deductible for tax purposes.

Supplemental pro-forma information

Had the Company completed the acquisition of Socla at the beginning of 2011, net sales, net income from continuing operations and earnings per share would have been as follows:

Amounts in millions (except per share information)		**Nine Months Ended October 2, 2011**
Net sales	$	1,123.8
Net income from continuing operations	$	53.9
Net income per share:		
Basic EPS continuing operations	$	1.43
Diluted EPS continuing operations	$	1.43

Net income from continuing operations for the nine months ended October 2, 2011, was adjusted to include $0.7 million of net interest expense related to the financing and $0.8 million of net amortization expense resulting from the estimated allocation of purchase price to amortizable tangible and intangible assets. Net income for the nine months ended October 2, 2011, was also adjusted to exclude $4.7 million, of net acquisition-related charges and third-party costs.

On January 31, 2012, the Company completed the acquisition of tekmar Control Systems (tekmar) in a share purchase transaction. A designer and manufacturer of control systems used in heating, ventilation, and air conditioning application, tekmar is expected to enhance the Company s hydronic systems product offerings in the U.S. and Canada. The initial purchase price paid was CAD $18.0 million, with an earn-out based on future earnings levels being achieved. The initial purchase price paid was equal to approximately $17.8 million based on the exchange rate of Canadian dollar to U.S. dollars as of January 31, 2012. The total purchase price will not exceed CAD $26.2 million. Sales for tekmar in 2011 approximated $11.0 million. The results of tekmar are included in the Company s North America segment since the acquisition date and are not material to the Company s consolidated financial statements. See Note 2 for additional information on purchase price allocations.

13. Subsequent Event

Dividend Declared

On October 29, 2012, 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 payable on November 30, 2012 to stockholders of record at the close of business on November 19, 2012.

Appointment of new Chief Financial Officer

On October 29, 2012, the Company announced that Dean P. Freeman has been appointed Executive Vice President and Chief Financial Officer of the Company, effective as of November 12, 2012.

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

Overview

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

We operate on a 52-week fiscal year ending on December 31. Any quarterly or nine-month data contained in this Quarterly Report on Form 10-Q generally reflects the results of operations for a 13-week or 39-week period, respectively.

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 EMEA (Europe, Middle East and Africa), with a growing presence in Asia. For over 137 years, we have designed and manufactured products that promote 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 are:

- Residential & commercial flow control products includes products typically sold into plumbing and hot water applications such as backflow preventers, water pressure regulators, temperature and pressure relief valves, and thermostatic mixing valves.

- HVAC & gas products includes hydronic and electric heating systems for under-floor radiant applications, hydronic pump groups for boiler manufacturers and alternative energy control packages, and flexible stainless steel connectors for natural and liquid propane gas in commercial food service and residential applications. HVAC is an acronym for heating, ventilation and air conditioning.

- Drains & water re-use products includes drainage products and engineered rain water harvesting solutions for commercial, industrial, marine and residential applications.

- Water quality products includes point-of-use and point-of-entry water filtration, conditioning and scale prevention systems for both commercial and residential applications.

Our business is reported in three geographic segments: North America, EMEA and Asia. We distribute our products through three primary distribution channels: wholesale, do-it-yourself (DIY) and original equipment manufacturers (OEMs). Interest rates, the unemployment rate and credit availability 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 of these activities have an impact on our levels of sales and earnings. An additional factor that has had an effect on our sales and operating income is fluctuation in foreign currency exchange rates, as approximately 47% of our

sales in the nine months ended September 30, 2012, and certain portions of our costs, assets and liabilities are denominated in currencies other than the U.S. dollar.

During the third quarter of 2012, sales decreased $9.6 million primarily from the depreciation of the euro against the dollar of $18.0 million offset by organic sales increases of $5.8 million and acquired sales of $2.6 million resulting from our acquisition of tekmar. Organic sales increased by 1.6% compared to last year s comparable period, primarily from increased sales in the EMEA OEM and wholesale markets. Organic sales in the third quarter of 2012 increased in EMEA by $5.0 million, or 3.1%, increased in Asia by $1.3 million, or 22.0%, and decreased over the third quarter of 2011 in North America by $0.5 million, or 0.2%. Organic sales growth excludes the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. We believe this provides investors with a more complete understanding of underlying sales trends by providing sales growth on a consistent basis. Gross margins decreased in the third quarter of 2012 as compared to 2011 by 0.5 percentage points, driven principally by higher non-commodity costs and the continued conversion of our U.S. manufacturing facilities to lead-free production, which caused inefficiencies from pre-production costs and product outsourcing. Our transition to lead-free products is in response to the federal *Reduction of Lead in Drinking Water Act,* which requires the weighted average lead content of the wetted surfaces of pipes, plumbing fittings and plumbing fixtures used in potable water applications to be reduced to no greater than 0.25% by January 2014. Commodity costs trended down during the quarter. Operating income of $33.1 million decreased by 19.7% in the third quarter of 2012 as compared to the third quarter of 2011, driven by increased impairment charges, incremental SG&A costs, and a decrease in gross margin as previously discussed. Foreign exchange movements primarily related to a weakening of the euro against the U.S. dollar negatively affected operating earnings by $1.9 million, when compared to the same period of 2011.

We believe that the factors relating to our future growth include the demand for clean water around the world, regulatory requirements relating to the quality and conservation of water, continued enforcement of plumbing and building codes, our ability to grow organically in select attractive market segments and geographic regions, the successful completion of selective acquisitions, both in our core markets as well as in new complementary markets, and a healthy economic environment, that fosters residential and

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commercial construction. Our acquisition strategy focuses on businesses that manufacture preferred brand name products that address our themes of water quality, water conservation, water safety, water flow control, HVAC 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 and HVAC products for the residential and commercial construction markets.

We have completed 36 acquisitions since divesting our industrial and oil and gas business in 1999. On January 31, 2012, we completed the acquisition of tekmar Control Systems (tekmar) in a share purchase transaction. A designer and manufacturer of control systems used in heating, ventilation, and air conditioning applications, tekmar is expected to enhance our hydronic systems product offerings in the U.S. and Canada. The initial purchase price paid was CAD $18.0 million, with an earn-out based on the achievement of certain future earnings levels. The initial purchase price paid was equal to approximately $17.8 million based on the exchange rate of Canadian dollar to U.S. dollars as of January 31, 2012. The total purchase price will not exceed CAD $26.2 million. Sales for tekmar in 2011 were approximately $11.0 million. On April 29, 2011, we completed the acquisition of Danfoss Socla S.A.S. (Socla) and the related water controls business of certain other entities controlled by Danfoss A/S, in a share and asset purchase transaction. The net purchase price of EUR 116.3 million was financed with cash on hand and euro-based borrowings under our Credit Agreement. The net purchase price was approximately $172.4 million based on the exchange rate of Euro to U.S. dollars as of April 29, 2011. Socla is a manufacturer of water protection valves and flow control solutions for the water market and the heating, ventilation and air conditioning market. Its major product lines include backflow preventers, check valves and pressure reducing valves. Socla is based in France, and its products are distributed worldwide for commercial, residential, municipal and industrial use. Socla s annual revenue for 2010 was approximately $130.0 million. Socla expands our residential and commercial plumbing and flow control product lines in EMEA and also adds to our HVAC product line.

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 competitive advantage for us.

Historically, we have faced a risk relating to our ability to respond to raw material cost fluctuations. 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, purchasing forward commitments for raw materials, when available, implementing cost reduction programs and passing increases in costs to our customers in the form of price increases.

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, quality and breadth of product offerings to be the primary competitive factors. We believe that product development, product testing capability, breadth of product offerings and investment in plant and equipment needed to manufacture products in compliance with code requirements represent a competitive advantage for us. We expect to spend an aggregate of between $27 million and $30 million during 2012 for purchases of capital equipment, depending on the timing of our continuing conversion of our manufacturing facilities to lead free production. We expect to incur a higher level of capital expenditures in 2013 as we complete our lead free production conversion.

Recent Events

Dividend Declared

On October 29, 2012, 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 payable on November 30, 2012 to stockholders of record at the close of business on November 19, 2012.

Appointment of new Chief Financial Officer

On October 29, 2012, we announced that Dean P. Freeman has been appointed Executive Vice President and Chief Financial Officer, effective as of November 12, 2012.

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Results of Operations

Third Quarter Ended September 30, 2012 Compared to Third Quarter Ended October 2, 2011

Net Sales. Our business is reported in three geographic segments: North America, EMEA and Asia. Our net sales in each of these segments for each of the third quarters of 2012 and 2011 were as follows:

	Third Quarter Ended September 30, 2012		Third Quarter Ended October 2, 2011			
	Net Sales	% Sales	Net Sales	% Sales	Change	% Change to Consolidated Net Sales
			(dollars in millions)			
North America	**$ 207.4**	**57.4%**	$ 205.6	55.4%	$ 1.8	0.5%
EMEA	**146.5**	**40.6**	159.3	43.0	(12.8)	(3.5)
Asia	**7.3**	**2.0**	5.9	1.6	1.4	0.4
Total	**$ 361.2**	**100.0%**	$ 370.8	100.0%	$ (9.6)	(2.6)%

The change in net sales was attributable to the following:

					Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
	North America	EMEA	Asia	Total	North America	EMEA	Asia	Total	North America	EMEA	Asia
					(dollars in millions)						
Organic	$ (0.5)	$ 5.0	$ 1.3	$ 5.8	(0.1)%	1.3%	0.4%	1.6%	(0.2)%	3.1%	22.0%
Foreign exchange	(0.3)	(17.8)	0.1	(18.0)	(0.1)	(4.8)		(4.9)	(0.2)	(11.1)	1.7
Acquired	2.6			2.6	0.7			0.7	1.3		
Total	$ 1.8	$ (12.8)	$ 1.4	$ (9.6)	0.5%	(3.5)%	0.4%	(2.6)%	0.9%	(8.0)%	23.7%

Organic net sales in the North America wholesale market decreased by $2.2 million, or 1.3%, in the third quarter of 2012, compared to the third quarter of 2011, mainly from decreased sales in residential and commercial products. Organic sales increased in the North American DIY market by $1.7 million, or 4.4%, in the third quarter of 2012 compared to the third quarter of 2011, as residential and commercial products and water quality product sales increased.

Organic net sales into the EMEA OEM market increased approximately $4.7 million, or 6.3%, as compared to the third quarter of 2011 due to stronger sales in under floor heating and in our drains product lines primarily related to our geographic expansion into the Middle East. Organic net sales in the EMEA wholesale market increased by $1.2 million, or 1.5%, in the third quarter of 2012 as compared to the same period in 2011 primarily due to our increased sales to Eastern Europe offset by lower sales in Italy and France.

The net decrease in sales due to foreign exchange was primarily due to the depreciation of the euro against the U.S. dollar. We cannot predict whether the euro 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 sales.

Acquired net sales growth in North America was due to the inclusion of tekmar.

Gross Profit. Gross profit and gross profit as a percent of net sales (gross margin) for the third quarters of 2012 and 2011 were as follows:

	Third Quarter Ended	
	September 30, 2012	October 2, 2011
	(dollars in millions)	
Gross profit	**$ 130.2**	$ 135.7
Gross margin	**36.1%**	36.6%

Gross margin decreased 0.5 percentage points in the third quarter of 2012 compared to the third quarter of 2011. North America s gross margin declined compared to third quarter of 2011 due to product mix, higher non-commodity costs, and pre-production and outsourcing costs caused by certain plants transitioning production to lead-free products. EMEA s gross margin increased due primarily to the inclusion of $1.8 million of Socla acquisition related costs in the third quarter of 2011. Adjusting for those costs, EMEA s gross margin declined slightly in 2012 due to lower overhead absorption.

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Selling, General and Administrative Expenses. Selling, General and Administrative, or SG&A, expenses for the third quarter of 2012 increased $0.9 million, or 1.0%, compared to the third quarter of 2011. The increase in SG&A expenses was attributable to the following:

		(in millions)	% Change
Organic	$	3.7	4.0%
Foreign exchange		(4.1)	(4.4)
Acquired		1.3	1.4
Total	$	0.9	1.0%

The organic increase in SG&A expenses was primarily due to higher selling costs in Europe of $2.0 million, higher insurance costs of $0.8 million primarily related to product liability insurance, increased IT costs of $0.7 million related primarily to an ERP implementation in Europe, retention costs related to our retiring CFO of $0.8 million, and higher corporate professional service costs of $1.1 million offset by a decrease in pension expense of $1.1 million related to our decision to freeze the defined benefit pension plan in the U.S. effective December 31, 2011. The decrease in SG&A expenses from foreign exchange was primarily due to the depreciation of the euro against the U.S. dollar in 2012. Acquired SG&A costs were related to the tekmar acquisition. Total SG&A expenses, as a percentage of sales, were 25.9% in the third quarter of 2012 and 25.0% in the third quarter of 2011.

Restructuring and Other Charges, Net. In the third quarter of 2012, we incurred a net $1.2 million in expense resulting from a $1.6 million charge related to an adjustment made to the gain on disposal of TWVC. In addition, we incurred involuntary terminations and other costs incurred as part of our Europe and North America restructuring plans, offset by the reduction of the expected BRAE contingent earnout liability of $1.0 million, as compared to $1.9 million of restructuring charges for the third quarter of 2011. For a more detailed description of our current restructuring plans, see Note 5 of Notes to Consolidated Financial Statements.

Goodwill and Other Long-Lived Asset Impairment Charges. In 2012, we recorded asset impairment charges of $2.4 million primarily related to goodwill impairment at BRAE of $1.0 million and $1.4 million of impairment charges related to certain assets held for sale. The goodwill impairment was based on historical results being below our expectations and a resulting reduction in the expected future cash flows to be generated.

Operating Income. Operating income (loss) by geographic segment for the third quarters of 2012 and 2011 were as follows:

	Third Quarter Ended						% Change to Consolidated Operating Income
		September 30, 2012		October 2, 2011		Change	
	(dollars in millions)						
North America	**$**	**25.9**	$	31.4	$	(5.5)	(13.4)%
EMEA		**15.1**		14.6		0.5	1.2
Asia		**0.8**		1.0		(0.2)	(0.5)
Corporate		**(8.7)**		(5.8)		(2.9)	(7.0)
Total	**$**	**33.1**	$	41.2	$	(8.1)	(19.7)%

The increase (decrease) in operating income (loss) is attributable to the following:

						Change As a % of Consolidated Operating Income					Change As a % of Segment Operating Income			
	North America	**EMEA**	**Asia**	**Corp.**	**Total**	**North America**	**EMEA**	**Asia**	**Corp.**	**Total**	**North America**	**EMEA**	**Asia**	**Corp.**
							(dollars in millions)							
Organic	$ (5.3)	$ 1.8	$ 1.4	$ (2.9)	$ (5.0)	(12.9)%	4.4%	3.4%	(7.0)%	(12.1)%	(16.9)%	12.3%	140.0%	50.0%
Foreign exchange		(1.9)			(1.9)		(4.6)			(4.6)		(13.0)		
Acquired	0.5				0.5	1.2				1.2	1.6			
Restructuring, impairment charges and other	(0.7)	0.6	(1.6)		(1.7)	(1.7)	1.4	(3.9)		(4.2)	(2.2)	4.1	(160.0)	
Total	$ (5.5)	$ 0.5	$ (0.2)	$ (2.9)	$ (8.1)	(13.4)%	1.2%	(0.5)%	(7.0)%	(19.7)%	(17.5)%	3.4%	(20.0)%	50.0%

The decrease in consolidated operating income was due primarily to a decrease in gross margin, an increase in impairment charges, and incremental SG&A costs as previously discussed. The decrease in North America s organic operating income was driven by lower gross margin, offset partially by lower SG&A costs. The EMEA operating income increase was due to lower acquisition-related costs in the third quarter of 2012 as compared to the same period last year. The acquired operating income was related to the tekmar acquisition.

Interest Expense. Interest expense decreased $0.4 million, or 6.2%, for the third quarter of 2012 as compared to the third quarter of 2011, primarily from a reduction in outstanding debt used in 2011 for the acquisition of Socla.

Other, net. Other, net increased $0.3 million for the third quarter of 2012 as compared to the third quarter of 2011, primarily due to a reduction in foreign currency transaction losses.

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Income Taxes. Our effective rate for continuing operations decreased to 32.5% in the third quarter of 2012, from 33.0% for the third quarter of 2011. The decrease was mainly due to the mix of worldwide earnings, with a higher percentage of earnings being generated in 2012 in Europe and China, than in 2011.

Net Income. Net income from continuing operations for the third quarter of 2012 was $18.7 million, or $0.53 per common share, compared to $23.6 million, or $0.63 per common share, for the third quarter of 2011. Results for the third quarter of 2012 include an after-tax charge of $2.9 million, or $0.08 per common share, for restructuring and other charges and goodwill and other long-lived asset impairment charges, compared to $1.2 million, or $0.03 per common share, for the third quarter of 2011. The depreciation of the euro and Canadian dollar against the U.S. dollar resulted in a negative impact on our operations of $0.04 per common share for the third quarter of 2012 when compared to the same period in 2011. Further, the effects of the stock repurchase programs undertaken during the second quarter of 2012 and third quarter of 2011 positively affected earnings per share by $0.04, when comparing third quarter results for 2012 and 2011.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended October 2, 2011

Net Sales. Our business is reported in three geographic segments: North America, EMEA and Asia. Our net sales in each of these segments for each of the first nine months of 2012 and 2011 were as follows:

	Nine Months Ended September 30, 2012		Nine Months Ended October 2, 2011			% Change to Consolidated
	Net Sales	% Sales	Net Sales	% Sales	Change	Net Sales
			(dollars in millions)			
North America	**$ 639.2**	**58.3%**	$ 619.7	57.6%	$ 19.5	1.8%
EMEA	**438.5**	**40.0**	441.1	41.0	(2.6)	(0.2)
Asia	**18.8**	**1.7**	15.6	1.4	3.2	0.3
Total	**$ 1,096.5**	**100.0%**	$ 1,076.4	100.0%	$ 20.1	1.9%

The change in net sales was attributable to the following:

					Change As a % of Consolidated Net Sales				Change As a % of Segment Net Sales		
	North America	EMEA	Asia	Total	North America	EMEA	Asia	Total	North America	EMEA	Asia
					(dollars in millions)						
Organic	$ 10.8	$ (5.4)	$ 2.0	$ 7.4	1.0%	(0.5)%	0.2%	0.7%	1.7%	(1.2)%	12.8%
Foreign exchange	(1.5)	(38.3)	0.5	(39.3)	(0.1)	(3.5)		(3.6)	(0.2)	(8.7)	3.2
Acquired	10.2	41.1	0.7	52.0	0.9	3.8	0.1	4.8	1.6	9.3	4.5
Total	$ 19.5	$ (2.6)	$ 3.2	$ 20.1	1.8%	(0.2)%	0.3%	1.9%	3.1%	(0.6)%	20.5%

Organic net sales in the North America wholesale market increased by $3.3 million, or 0.7%, in the first nine months of 2012, compared to the first nine months of 2011, primarily from increased sales of approximately $1.6 million in residential and commercial products and increased HVAC and gas products sales of approximately $1.3 million. Organic sales increased in the North America DIY market by $7.5 million, or 6.1%, in the first nine months of 2012 compared to the first nine months of 2011, as residential and commercial products and water quality

products sales increased by $5.8 million and $1.2 million, respectively.

EMEA organic net sales in the wholesale market decreased by approximately $0.6 million, or 0.3%, in the first nine months of 2012, as compared to the same period in 2011. Declines are primarily attributable to softer sales in Italy offset by sales gains in hydronic under floor heating packages. Organic net sales into the OEM market were down approximately $2.8 million, or 1.3%, as compared to the first nine months of 2011. Sales gains in our drains product lines were offset by reduced sales of certain pump controls and pre-insulated piping products due in part to weather related issues and lower sales activity in Italy and France. Organic net sales into the DIY market declined $2.0 million, or 11.0%, due primarily to lower sales in France.

The net decrease in sales due to foreign exchange was primarily due to the depreciation of the euro against the U.S. dollar. We cannot predict whether the euro 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 sales.

Acquired net sales growth in North America was due to the inclusion of Socla and tekmar, and acquired net sales growth in EMEA and Asia was due to the inclusion of Socla.

Gross Profit. Gross profit and gross profit as a percent of net sales (gross margin) for the first nine months of 2012 and 2011 were as follows:

	Nine Months Ended	
	September 30, 2012	**October 2, 2011**
	(dollars in millions)	
Gross profit	**$ 391.6**	$ 387.0
Gross margin	**35.7%**	36.0%

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Gross margins decreased 0.3 percentage points in the first nine months of 2012 as compared to the first nine months of 2011. North America s gross margin declined due to cost increases for non-commodity purchases as well as pre-production and outsourcing costs caused by certain plants transitioning production to lead-free products. That decline was offset by an increase in gross margins in EMEA related to acquisition related charges incurred in 2011 for the Socla acquisition that did not recur in 2012.

Selling, General and Administrative Expenses. Selling, General and Administrative, or SG&A, expenses for the first nine months of 2012 increased $3.6 million, or 1.3%, compared to the first nine months of 2011. The increase in SG&A expenses was attributable to the following:

		(in millions)	% Change
Organic	$	(3.2)	(1.1)%
Foreign exchange		(9.1)	(3.2)
Acquired		15.9	5.6
Total	$	3.6	1.3%

The organic decrease in SG&A expenses was primarily due to: (i) separation costs for our former Chief Executive Officer incurred in 2011 of $6.3 million; (ii) the impact of selected headcount reductions; (iii) reduced net retirement costs resulting from our decision to freeze the defined benefit pension plan in the U.S. effective December 31, 2011; and (iv) reduced depreciation and amortization in 2012 related primarily to impairment charges taken in 2011 for certain long-lived assets of a European subsidiary, offset by approximately $3.4 million in higher costs primarily related to product liability and $0.8 million of retention costs related to our retiring CFO. The decrease in SG&A expenses from foreign exchange was primarily due to the depreciation of the euro against the U.S. dollar in 2012. Acquired SG&A costs were related to the Socla and tekmar acquisitions. Total SG&A expenses, as a percentage of sales, were 26.6% in the first nine months of 2012 compared to 26.7% in the first nine months of 2011.

Restructuring and Other Charges, Net. In the first nine months of 2012, we incurred a net $3.5 million of expense related in part to the involuntary terminations and other costs incurred as part of our Europe and North America restructuring plans and a $1.6 million charge related to an adjustment made to the gain on disposal of TWVC, offset by the reduction of the expected BRAE contingent earnout liability of $1.0 million, as compared to $8.2 million of restructuring charges for the first nine months of 2011. For a more detailed description of our current restructuring plans, see Note 5 of Notes to Consolidated Financial Statements.

Goodwill and Other Long-Lived Asset Impairment Charges. In 2012, we recorded asset impairment charges of $3.0 million primarily related to goodwill impairment at BRAE of $1.0 million and $1.4 million of impairment charges related to certain assets held for sale. The goodwill impairment was based on historical results being below our expectations and a resulting reduction in the expected future cash flows to be generated.

Operating Income. Operating income (loss) by geographic segment for the first nine months of 2012 and 2011 were as follows:

	Nine Months Ended September 30, 2012	Nine Months Ended October 2, 2011	Change	% Change to Consolidated Operating Income

	(dollars in millions)			
North America	**$ 72.8**	$ 84.4	$ (11.6)	(12.8)%
EMEA	**39.9**	31.2	8.7	9.6
Asia	**4.3**	2.7	1.6	1.8
Corporate	**(23.3)**	(27.6)	4.3	4.7
Total	**$ 93.7**	$ 90.7	$ 3.0	3.3%

The increase (decrease) in operating income (loss) is attributable to the following:

						Change As a % of Consolidated Operating Income					Change As a % of Segment Operating Income			
	North America	**EMEA**	**Asia**	**Corp.**	**Total**	**North America**	**EMEA**	**Asia**	**Corp.**	**Total**	**North America**	**EMEA**	**Asia**	**Corp.**
							(dollars in millions)							
Organic	$ (10.2)	$ 4.1	$ 2.9	$ 4.3	$ 1.1	(11.7)%	4.5%	3.2%	4.7%	0.7%	(12.6)%	13.1%	107.4%	(15.6)%
Foreign exchange	(0.2)	(3.8)	0.1		(3.9)	(0.2)	(4.2)	0.1		(4.3)	(0.2)	(12.1)	3.7	
Acquired	0.3	3.5			3.8	0.8	3.9			4.7	0.8	11.2		
Restructuring, impairment charges and other	(1.5)	4.9	(1.4)		2.0	(1.7)	5.4	(1.5)		2.2	(1.7)	15.7	(51.8)	
Total	$ (11.6)	$ 8.7	$ 1.6	$ 4.3	$ 3.0	(12.8)%	9.6%	1.8%	4.7%	3.3%	(13.7)%	27.9%	59.3%	(15.6)%

The increase in consolidated operating income in the first nine months of 2012 was due in part to a net reduction in SG&A expenses at the Corporate level related to our former CEO s separation costs incurred in 2011 as previously discussed. The reduction in North America organic operating income was driven by lower gross margin and increased product liability costs. The increase in

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EMEA operating income was due to an improvement in gross margin primarily from lower acquisition related costs in the first nine months of 2012 as compared to the same period last year. The acquired operating income related to Socla and tekmar. Additionally, restructuring costs decreased primarily due to fewer charges related to restructuring programs in Europe.

Interest Expense. Interest expense decreased $0.7 million, or 3.7%, for the first nine months of 2012 as compared to the first nine months of 2011, primarily due to the interest on additional borrowings in 2011 under our revolving line of credit incurred in connection with the acquisition of Socla.

Other, net. Other, net increased $1.9 million for the first nine months of 2012 as compared to the first nine months of 2011, primarily due to a reduction in foreign currency transaction losses and the settlement of a customs matter in China that was less than our reserve amount.

Income Taxes. Our effective tax rate for continuing operations decreased to 31.6% for the nine months ended September 30, 2012 from 33.9% for the nine months October 2, 2011. The higher rate in 2011 was largely due to non-deductible acquisition costs of $1.1 million associated with the Socla acquisition in Europe.

Net Income. Net income from continuing operations for the first nine months of 2012 was $52.9 million, or $1.46 per common share, compared to $47.6 million, or $1.26 per common share, for the first nine months of 2011. Results for the first nine months of 2012 include after-tax charges of $4.8 million, or $0.13 per common share, for restructuring and other charges and goodwill and other long-lived asset impairment charges compared to $5.6 million, or $0.15 per common share, for the first nine months of 2011. The depreciation of the euro and Canadian dollar against the U.S. dollar resulted in a negative impact on our operations of $0.08 per common share for the first nine months of 2012 compared to the comparable period in 2011.

Liquidity and Capital Resources

We generated $73.7 million of cash from operating activities in the first nine months of 2012 as compared to $56.5 million in the first nine months of 2011. This increase is primarily due to better operating results and improved cash generation from working capital.

We used $33.2 million of net cash for investing activities for the first nine months of 2012, including $17.5 million for the acquisition of tekmar and $18.8 million of cash for capital equipment. For the remainder of fiscal year 2012, we expect to invest between $8 million and $11 million in capital equipment as part of our ongoing commitment to improve our operating capabilities, including the addition of our new lead free manufacturing facility.

We used $83.2 million of net cash for financing activities for the first nine months of 2012, primarily for our stock repurchase program, repayment of our line of credit and dividend payments, offset by proceeds from additional debt issuances and from employee share transactions.

Our credit agreement (the Credit Agreement) provides for a multi-currency $300.0 million, five-year, senior unsecured revolving credit facility which may be increased by an additional $150.0 million under certain circumstances and subject to the terms of the Credit Agreement. The Credit Agreement has a sublimit of up to $75.0 million in letters of credit. The Credit Agreement matures on June 18, 2015.

Borrowings outstanding under the Credit Agreement bear interest at a fluctuating rate per annum equal to (i) in the case of Eurocurrency rate loans, the British Bankers Association LIBOR rate plus an applicable percentage, ranging from 1.70% to 2.30%, determined by reference to our consolidated leverage ratio plus, in the case of certain lenders, a mandatory cost calculated in accordance with the terms of the Credit Agreement, or (ii) in the case of base rate loans and swing line loans, the highest of (a) the federal funds rate plus 0.5%, (b) the rate of interest in effect for such day as announced by Bank of America, N.A. as its prime rate, and (c) the British Bankers Association LIBOR rate plus 1.0%, plus an applicable percentage, ranging from 0.70% to 1.30%, determined by reference to our consolidated leverage ratio. In addition to paying interest under the Credit Agreement, we are also required to pay certain fees in connection with the credit facility, including, but not limited to, a facility fee and letter of credit fees. Under the Credit Agreement, we are required to satisfy and maintain specified financial ratios and other financial condition tests. We may repay loans outstanding under the Credit Agreement from time to time without premium or penalty, other than customary breakage costs, if any, and subject to the terms of the Credit Agreement. As of September 30, 2012, we had $34.6 million of stand-by letters of credit outstanding under the Credit Agreement. As of September 30, 2012, we were in compliance with all covenants related to the Credit Agreement and had $265.4 million of unused and available credit under the Credit Agreement.

Working capital (defined as current assets less current liabilities) as of September 30, 2012 was $428.5 million compared to $521.9 million as of December 31, 2011. Cash and cash equivalents decreased to $209.5 million as of September 30, 2012, compared to $250.6 million as of December 31, 2011. The ratio of current assets to current liabilities was 2.1 to 1 as of September 30, 2012 and 2.8 to 1 as of December 31, 2011. The decrease in working capital was driven primarily by our use of $65.8 million cash for our stock repurchase program and the increase in current portion of long-term debt related the inclusion of $75 million for our 5.47% senior notes due in May 2013.

As of September 30, 2012, we held $209.5 million in cash and cash equivalents. Of this amount, approximately $102.1 million of cash and cash equivalents was held by foreign subsidiaries. Our ability to fund operations from this balance could be limited by the

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liquidity in the market as well as possible tax implications of moving proceeds across jurisdictions. Our U.S. operations currently generate sufficient cash flows to meet our domestic obligations. We also have the ability to borrow funds at reasonable interest rates, utilize the committed funds under our Credit Agreement or recall intercompany loans. However, if amounts held by foreign subsidiaries were needed to fund operations in the United States, we could be required to accrue and pay taxes to repatriate these funds. Such charges may include a federal tax of up to 35.0% on dividends received in the U.S., potential state income taxes and an additional withholding tax payable to foreign jurisdictions of up to 10.0%. However, our intent is to permanently reinvest undistributed earnings of foreign subsidiaries and we do not have any current plans to repatriate them to fund operations in the United States.

We anticipate paying the $75.0 million of unsecured 5.47% senior notes maturing on May 15, 2013 through available funds or by refinancing the debt.

Non-GAAP Financial Measures

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, repay debt, pay dividends, repurchase stock and fund acquisitions. Other companies 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.. The cash conversion rate of free cash flow to net income is also a measure of our performance in cash flow generation.

A reconciliation of net cash provided by operating activities to free cash flow and calculation of our cash conversion rate is provided below:

	Nine Months Ended	
	September 30, 2012	**October 2, 2011**
	(in millions)	
Net cash provided by operating activities	**$ 73.7**	$ 56.5
Less: additions to property, plant, and equipment	**(18.8)**	(16.4)
Plus: proceeds from the sale of property, plant, and equipment	**1.1**	0.6
Free cash flow	**$ 56.0**	$ 40.7
Net income from continuing operations	**$ 52.9**	$ 47.6
Cash conversion rate of free cash flow to net income from continuing operations	**105.9%**	85.5%

Our free cash flow improved in the first nine months of 2012 when compared to the first nine months of 2011 primarily due to higher operating profits and improved cash generation from working capital.

Our net debt to capitalization ratio (a non-GAAP financial measure) for the first nine months of 2012 was 16.1%, compared to 13.9% at December 31, 2011. The increase in net debt to capitalization ratio is due primarily to cash outlay related to the stock repurchase program and the tekmar acquisition. Management believes the net debt to capitalization ratio is 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 their net debt to capitalization ratios differently.

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

	September 30, 2012	December 31, 2011
	(in millions)	
Current portion of long-term debt	**$ 77.0**	$ 2.0
Plus: long-term debt, net of current portion	**307.8**	397.4
Less: cash and cash equivalents	**(209.5)**	(250.6)
Net debt	**$ 175.3**	$ 148.8

	September 30, 2012	December 31, 2011
	(in millions)	
Net debt	**$ 175.3**	$ 148.8
Plus: total stockholders equity	**912.4**	919.8
Capitalization	**$ 1,087.7**	$ 1,068.6
Net debt to capitalization ratio	**16.1%**	13.9%

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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 $34.8 million as of September 30, 2012 and $34.9 million at December 31, 2011. 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.

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 are 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. There were no changes in accounting policies or significant changes in accounting estimates during the first nine months of 2012.

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) collectability 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, cash discounts and for customer rebate programs. Provisions for returns and allowances and cash discounts are made at the time of sale, derived from historical trends and form a portion of the allowance for doubtful accounts. Customer rebate 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 rebate 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 addition, factors are developed in certain regions utilizing historical trends of sales and returns and allowances and cash discount activities to derive a reserve for returns and allowances and cash discounts.

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.

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.

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Goodwill and other intangibles

We have made numerous acquisitions over the years which included the recognition of a significant amount of goodwill. Goodwill is tested for impairment annually or more frequently if an event or circumstance indicates that an impairment loss may have been incurred. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, and determination of the fair value of each reporting unit. We estimate the fair value of our reporting units using an income approach based on the present value of estimated future cash flows. We believe this approach yields the most appropriate evidence of fair value as our reporting units are not easily compared to other corporations involved in similar businesses. We have determined we have eight reporting units including Residential and Commercial, Dormont, Drains & Water re-use, BRAE, Water Quality, EMEA, Blücher, and Asia. Our Water Quality reporting unit does not have goodwill.

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 our estimates and judgments regarding expectations of the success and life cycle of products and technology acquired.

Revised accounting guidance allows us to review goodwill and indefinite lived intangibles for impairment utilizing either qualitative or quantitative analyses. We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit or an indefinite lived intangible is less than its carrying amount. If, after assessing the totality of events and circumstances, we determine it is more likely than not that the fair value of a reporting unit or an indefinite lived intangible is greater than its carrying amount, then performing the two-step (quantitative) impairment test is unnecessary.

For goodwill impairment testing, we first identify those reporting units that we believe could pass a qualitative assessment to determine whether further impairment testing is necessary. For each reporting unit identified, our qualitative analysis includes:

1) A review of the most recent fair value calculation to identify the extent of the cushion between fair value and carrying amount, to determine if a substantial cushion existed.

2) A review of events and circumstances that have occurred since the most recent fair value calculation to determine if those events or circumstances would have affected our previous fair value assessment. Items identified and reviewed include macroeconomic conditions, industry and market changes, cost factor changes, events that affect the reporting unit, financial performance against expectations and the reporting unit s performance relative to peers.

We then compile this information and make our assessment of whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If we determine it is not more likely than not, then no further quantitative analysis is required.

The second analysis for goodwill impairment involves a quantitative two-step process. The first step of the impairment test requires a comparison of the fair value of each of our reporting units to the respective carrying value. If the carrying value of a reporting unit is less than its fair value, no indication of impairment exists and a second step is not performed. If the carrying amount of a reporting unit is higher than its fair value, there is an indication that impairment may exist and a second step must be performed. In the second step, the impairment is computed by comparing the implied fair value of the reporting unit s goodwill with the carrying amount of the goodwill. If the carrying amount of the reporting unit s goodwill is greater than the implied fair value of its goodwill, an impairment loss must be recognized for the excess and charged to operations.

Inherent in our development of the present value of future cash flow projections are assumptions and estimates derived from a review of our operating results, business plans, expected growth rates, cost of capital and tax rates. We also make certain assumptions about future economic conditions and other market data. We develop our assumptions based on our historical results including sales growth, operating profits, working capital levels and tax rates.

We believe that the discounted cash flow model is sensitive to the selected discount rate. We use third-party valuation specialists to help develop appropriate discount rates for each reporting unit. We use standard valuation practices to arrive at a weighted average cost of capital based on the market and guideline public companies. The higher the discount rate, the lower the discounted cash flows. While we believe that our estimates of future cash flows are reasonable, different assumptions could significantly affect our valuations and result in impairments in the future.

As of October 30, 2011, the annual impairment analysis date, the fair value of the EMEA reporting unit exceeded the carrying value by approximately 9%. Operating results for the EMEA reporting unit have been hindered by the downturn in the economic environment in Europe and continued to fall below expectations during the six months ended July 1, 2012, triggering the decision to update the impairment analysis. As a result of the updated fair value assessment, it was determined that the fair value of the EMEA reporting unit continues to exceed its carrying value, a result of a decrease in discount rate and a reduction of net debt offset by lower short-term projections. We also performed an analysis on the long-lived assets in the EMEA reporting unit as a result of the triggering event and concluded that these assets were not impaired.

Although the EMEA reporting unit met expectations during the quarter ended September 30, 2012, should the EMEA reporting units operating results decline further because the European marketplace deteriorates beyond our current expectations or should interest

rates increase, then the reporting unit s goodwill may be at risk for impairment in the future. The EMEA reporting unit s goodwill balance as of September 30, 2012 was $210.7 million.

Operating results for the Blue Ridge Atlantic Enterprises, Inc. (BRAE) reporting unit in North America continued to fall below expectations during the nine months ended September 30, 2012, triggering the decision to update the impairment analysis during the third quarter. As a result, the Company recorded a pre-tax goodwill impairment charge of $1.0 million. Because expectations have been lowered, the Company also reviewed the BRAE earnout calculation and recorded a $1.0 million reduction in the contingent earnout liability during the third quarter. The Company estimated the fair value of the reporting unit using the expected present value of future cash flows. The BRAE reporting unit s goodwill balance as of September 30, 2012 was $0.3 million.

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. We are subject to a variety of potential liabilities in connection with product liability cases and we maintain excess product liability and other insurance coverage, which we believe to be generally in accordance with industry practices. For product liability cases in the U.S., management establishes its product liability accrual by utilizing third-party actuarial valuations that incorporate historical trend factors and our specific claims experience derived from loss reports provided by third-party administrators. 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, as we experienced in the first nine months of 2012 when we incurred incremental costs of $2.1 million. 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, discounted based on risk-free interest rates. We employ third-party actuarial valuations to help us estimate our workers compensation accrual. 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 and is subject to changes in discount rates.

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 in more detail in Part I, Item 1, Business - Product Liability, Environmental and Other Litigation Matters, of our Annual Report on Form 10-K for the year ended December 31, 2011. As required by GAAP, 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. In the event of an unfavorable outcome in one or more legal matters, the ultimate liability may be in excess of amounts currently accrued, if any, and may be material to our operating results or cash flows for a particular quarterly or annual period. However, based on information currently known to us, management believes that the ultimate outcome of all legal contingencies, as they are resolved over time, is not likely to have a material effect on our financial position, results of operations, cash flows or liquidity.

Pension benefits

We account for our pension plans in accordance with GAAP, which involves recording a liability or asset based on the projected benefit obligation and the fair value of plan assets. 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.

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.

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On October 31, 2011, our Board of Directors voted to cease accruals of additional benefits effective December 31, 2011 under both the Pension Plan and Supplemental Employees Retirement Plan. Effective November 1, 2011, we began amortizing the unamortized gains and losses over the remaining life expectancy of the participants instead of our former policy of average remaining service period.

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. 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. We account for tax benefits when the item in question meets the more-likely-than-not (greater than 50% likelihood of being sustained upon examination by the taxing authorities) threshold.

New Accounting Standards

In December 2011, the FASB issued an amendment to the accounting guidance for disclosure of offsetting assets and liabilities and related arrangements. The amendment expands the disclosure requirements in that entities will be required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The amendment is effective for fiscal years, and interim periods within those years, beginning on or after January 1, 2013, and shall be applied retrospectively. We do not expect the adoption of this accounting pronouncement will have a material impact on our financial statements.

In July 2012, the FASB issued an amendment to the requirements for indefinite-lived intangible asset impairment testing. We have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If, after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of an indefinite-lived intangible asset is greater than its carrying amount, then performing the impairment test is unnecessary. We intend to adopt this new standard effective with our annual impairment testing date of October 30, for the year ending December 31, 2012.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Our consolidated earnings, which are reported in United States dollars, are subject to translation risks due to changes in foreign currency exchange rates. This risk is concentrated primarily 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. Realized and unrealized gains and losses on the contracts we recognized in other (income) expense are not material.

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 Notes 4 and 9 of this report and in Note 10 of Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

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maximum level of stability in their costs and related pricing, seeking alternative supply sources when necessary, purchasing forward commitments for raw materials, when available, implementing cost reduction programs, value engineering, and passing increases in costs on to our customers in the form of price increases.

Item 4. Controls and Procedures

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934, as amended, or Exchange Act, 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 (our principal executive officer and principal financial officer, respectively), 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, our 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 September 30, 2012, 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.

Part II. OTHER INFORMATION

Item l. Legal Proceedings

As disclosed in Part I, Item 1, Product Liability, Environmental and Other Litigation Matters of our Annual Report on Form 10-K for the year ended December 31, 2011, we are party to certain litigation. There has been no material developments with respect to our contingencies and environmental remediation proceedings during the first nine months ended September 30, 2012.

Item 1A. Risk Factors

This report may include statements that are not historical facts and are considered forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our current views about future results of operations and other

forward-looking information. In some cases you can identify these statements by forward-looking words such as anticipate, believe, could, estimate, expect, intend, may, should and would or similar words. You should not rely on forward-looking statements because our actual may differ materially from those indicated by these forward-looking statements as a result of a number of important factors. These factors include, but are not limited to, the following: the current economic and financial condition, which can affect levels of housing starts and remodeling, affecting the markets where our products are sold, manufactured, or marketed; cost increases and technical challenges in connection with our conversion to lead-free compliant products; shortages in and pricing of raw materials and supplies; loss of market share through competition; introduction of competing products by other companies; pressure on prices from competitors, suppliers, and/or customers; changes in variable interest rates on our borrowings; identification and disclosure of material weaknesses in our internal control over financial reporting; failure to expand our markets through acquisitions; failure or delay in developing new products; lack of acceptance of new products; failure to manufacture products that meet required performance and safety standards; foreign exchange rate fluctuations; cyclicality of industries, such as plumbing and heating wholesalers and home improvement retailers, in which we market certain of our products; environmental compliance costs; product liability costs; the results and timing of our restructuring plans; changes in the status of current litigation, and other risks and uncertainties discussed in Part I, Item 1A, Item 1A. Risk Factors and in Note 14 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities Exchange Commission, and in other reports we file from time to time with the Securities and Exchange Commission.

The risk factor immediately following has been added to provide additional disclosure relating to our compliance with new regulations regarding conflict minerals.

Compliance with new regulations and customer demands regarding conflict minerals could increase costs and affect the manufacturing and sale of our products.

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Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) required the SEC to establish new disclosure and reporting requirements regarding specified minerals originating in the Democratic of the Congo or an adjoining country that are necessary to the functionality or production of products manufactured by companies required to file reports with the SEC. The final rules implementing these requirements, as released recently by the SEC, could affect sourcing at competitive prices and availability in sufficient quantities of minerals used in the manufacture of our products. In addition, because our supply chain is complex we may face commercial challenges if we are unable to verify sufficiently the origins for all metals used in our products through the due diligence procedures that we implement and otherwise may become obliged to disclose publicly those efforts with regard to conflict minerals. Moreover, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict free, which could place us at a competitive disadvantage if we are unable to do so.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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

The following table includes information with respect to shares of our Class A Common Stock withheld to satisfy withholding tax obligations during the third quarter ended September 30, 2012.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
July 2, 2012 July 29, 2012				
July 30, 2012 August 26, 2012	16,327	$ 36.09		
August 27, 2012 September 30, 2012	1,667	$ 38.93		
Total	17,994	$ 36.35		

The following table includes information with respect to the repurchases of our Class A Common Stock during the third quarter ended September 30, 2012 under our stock repurchase program.

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)
July 2, 2012 July 29, 2012	80,227	$ 32.61	80,227	
July 30, 2012 August 26, 2012				
August 27, 2012 September 30, 2012				
Total	80,227	$ 32.61	80,227	

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(1) On May 16, 2012, the Board of Directors authorized a stock repurchase program of up to two million shares of the Company s Class A Common Stock in open market purchases. During the quarter ended July 1, 2012, we repurchased approximately 1.9 million shares of Class A common stock at a cost of approximately $63.2 million. During the quarter ended September 30, 2012, the remaining shares were purchased for a cost of $2.6 million. The stock repurchase program has thus been completed at a total cost of $65.8 million.

Item 6. Exhibits

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

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SIGNATURES

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

WATTS WATER TECHNOLOGIES, INC.

Date: November 8, 2012	By:	/s/ David J. Coghlan David J. Coghlan Chief Executive Officer (principal executive officer)
Date: November 8, 2012	By:	/s/ William C. McCartney William C. McCartney Chief Financial Officer (principal financial officer)
Date: November 8, 2012	By:	/s/ Timothy M. MacPhee Timothy M. MacPhee Treasurer and Chief Accounting Officer (principal accounting officer)

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EXHIBIT INDEX

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

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as amended (1)
3.2	Amended and Restated By-Laws (2)
10.1	Form of Indemnification Agreement between the Registrant and certain directors and officers of the Registrant
31.1	Certification of Principal Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
31.2	Certification of Principal Financial Officer pursuant Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

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* Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at September 30, 2012 and December 31, 2011, (ii) Consolidated Statements of Operations for the Third Quarters Ended September 30, 2012 and October 2, 2011 and the Nine Months Ended September 30, 2012 and October 2, 2011, (iii) Consolidated Statements of Comprehensive Income (Loss) for the Third Quarters Ended September 30, 2012 and October 2, 2011 and for the Nine Months Ended September 30, 2012 and October 2, 2011, (vi) Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and October 2, 2011, and (vii) Notes to Consolidated Financial Statements.

(1) Incorporated by reference to the Registrant s Quarterly Report on Form 10-Q (File No. 001-11499) for the quarter ended July 3, 2005.

(2) Incorporated by reference to the Registrant s Current Report on Form 8-K (File No. 001-11499) dated July 12, 2010.