

WATTS WATER TECHNOLOGIES INC
Form DEF 14A
March 31, 2004

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

SCHEDULE 14A

(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

WATTS WATER TECHNOLOGIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
 - (1) Title of each class of securities to which transaction applies:

 - (2) Aggregate number of securities to which transaction applies:

 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Watts Water Technologies, Inc.

April 2, 2004

Dear Stockholder:

We cordially invite you to attend our 2004 Annual Meeting of Stockholders, which will be held on Wednesday, May 5, 2004 at 10:00 a.m., in the Phillips Room of The Andover Inn at Phillips Academy, Chapel Avenue, Andover, Massachusetts 01810.

On the pages following this letter you will find the notice of our 2004 Annual Meeting, which lists the business matters to be considered at the meeting, and the proxy statement, which describes the matters listed in the notice. We have also enclosed your proxy card and our annual report for the year ended December 31, 2003.

Your support of our efforts is important to the other directors and to me regardless of the number of shares you own. I hope you will vote as soon as possible. If you are a stockholder of record, you may vote by completing, signing and mailing the enclosed proxy card in the envelope provided. If your shares are held in "street name" that is, held for your account by a broker or other nominee you will receive instructions from the holder of record that you must follow for your shares to be voted.

Following completion of the scheduled business at the 2004 Annual Meeting, we will report on our operations and plans and answer questions from stockholders. We hope that you will be able to join us on May 5th.

Sincerely,

PATRICK S. O'KEEFE
President and Chief Executive Officer

WATTS WATER TECHNOLOGIES, INC.

**815 Chestnut Street
North Andover, MA 01845**

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 5, 2004

To the Stockholders of
Watts Water Technologies, Inc.

Notice is hereby given that the 2004 Annual Meeting of Stockholders of Watts Water Technologies, Inc., a Delaware corporation (the "Company"), will be held in the Phillips Room of The Andover Inn at Phillips Academy, Chapel Avenue, Andover, Massachusetts 01810, on Wednesday, May 5, 2004, at 10:00 a.m., local time, (the "Annual Meeting") for the following purposes:

1. To elect to the Board of Directors of the Company seven directors, each to hold office until the Company's 2005 Annual Meeting of Stockholders and until such director's successor is duly elected and qualified;
2. To ratify the selection of KPMG LLP as the independent auditors of the Company for the current fiscal year;
3. To approve the Watts Water Technologies, Inc. 2004 Stock Incentive Plan; and
4. To consider and act upon any other matters that may properly come before the Annual Meeting.

Only stockholders of record at the close of business on March 26, 2004 will be entitled to notice of and to vote at the meeting or any adjournment or postponement thereof.

By Order of the Board of Directors

WILLIAM C. McCARTNEY
Secretary

North Andover, Massachusetts
April 2, 2004

WATTS WATER TECHNOLOGIES, INC.

ANNUAL MEETING OF STOCKHOLDERS
May 5, 2004
PROXY STATEMENT

INFORMATION CONCERNING SOLICITATION AND VOTING

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors (the "Board") of Watts Water Technologies, Inc. (the "Company") for use at the Company's 2004 Annual Meeting of Stockholders to be held on Wednesday, May 5, 2004 at 10:00 a.m., local time, in the Phillips Room of The Andover Inn at Phillips Academy, Chapel Avenue, Andover, Massachusetts 01810 and at any adjournment or postponement thereof (the "Annual Meeting").

Only stockholders of record at the close of business on March 26, 2004 are entitled to receive notice of and to vote at the Annual Meeting. Each share of class A common stock, par value \$.10 per share, of the Company outstanding on the record date is entitled to one vote, and each share of class B common stock, par value \$.10 per share, of the Company outstanding on the record date is entitled to ten votes. As of the close of business on March 26, 2004, there were outstanding and entitled to vote 24,789,410 shares of class A common stock and 7,471,700 shares of class B common stock.

If your shares are held in "street name," your brokerage firm, under certain circumstances, may vote your shares for you if you do not return your proxy. Brokerage firms have authority under the rules of the New York Stock Exchange ("NYSE") to vote customers' unvoted shares on some routine matters. If you do not give a proxy to your brokerage firm to vote your shares, your brokerage firm may either vote your shares on routine matters or leave your shares unvoted. The election of directors (proposal 1) and the ratification of KPMG LLP as the Company's independent auditors (proposal 2) are considered routine matters. Approval of the Company's 2004 Stock Incentive Plan (proposal 3) is not considered a routine matter so your brokerage firm cannot vote your shares on proposal 3 if you do not return your proxy. Shares held by brokers as to which voting instructions have not been received from the beneficial owners with respect to non-routine matters are referred to as "broker non-votes." We encourage you to provide voting instructions to your brokerage firm by returning your completed proxy. This ensures your shares will be voted at the meeting according to your instructions. You should receive directions from your brokerage firm about how to submit your proxy to them at the time you receive this proxy statement.

The presence, in person or by proxy, of outstanding shares of class A common stock and class B common stock representing a majority of the total votes entitled to be cast is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Shares that reflect abstentions or broker non-votes will be counted for purposes of determining whether a quorum is present for the transaction of business at the Annual Meeting.

The seven nominees for director receiving the highest number of votes FOR election will be elected as directors. This is called a plurality. As discussed above, if your shares are held by your broker in "street name," and if you do not vote your shares, your brokerage firm has authority under the rules of the NYSE to vote your unvoted shares held by the firm on proposal 1. You may vote FOR all of the director nominees, WITHHOLD your vote from all of the director nominees or WITHHOLD your vote from any one or more of the director nominees. Votes that are withheld will not be included in the vote tally for the election of directors and will have no effect on the results of the vote.

Ratification of the selection of KPMG as the Company's independent auditor for 2004 requires the affirmative vote of a majority of all the votes present or represented at the Annual Meeting and entitled to be cast on the proposal. As discussed above, if your shares are held by your broker in "street name," and if you do not vote your shares, your brokerage firm has authority under the rules of

the NYSE to vote your unvoted shares on proposal 2. If you vote to ABSTAIN on proposal 2, your shares will not be voted in favor of such proposal, although your shares will be considered to have been entitled to vote on the proposal. As a result, voting to ABSTAIN on proposal 2 has the effect of voting AGAINST such proposal.

Approval of the Company's 2004 Stock Incentive Plan requires the affirmative vote of a majority of all the votes present or represented at the Annual Meeting and entitled to be cast on the proposal. In addition, NYSE rules require that the total number of votes cast on proposal 3 represent more than 50% of all of the votes entitled to be cast on the proposal. As discussed above, if your shares are held by your broker in "street name," and if you do not vote your shares, your brokerage firm does not have authority under the rules of the NYSE to vote your unvoted shares on proposal 3. However, these broker non-votes will have no effect on the vote because they will not be considered to have been entitled to vote on proposal 3. If you vote to ABSTAIN on proposal 3, your shares will not be voted in favor of such proposal, although your shares will be considered to have been entitled to vote on the proposal. As a result, voting to ABSTAIN on proposal 3 has the effect of voting AGAINST such proposal.

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Shares represented by duly executed proxies received by the Company and not revoked will be voted at the Annual Meeting in accordance with the instructions contained therein. If no instructions are given, properly executed proxies will be voted (i) FOR the election of each of the nominees named herein for director, (ii) FOR the ratification of the selection of KPMG as the independent auditors of the Company for the current fiscal year, and (iii) FOR approval of the 2004 Stock Incentive Plan.

Any properly completed proxy may be revoked at any time before it is voted on any matter by (1) giving written notice of such revocation to the Secretary of the Company at the address set forth below, (2) signing and duly delivering a proxy bearing a later date, or (3) attending the Annual Meeting and voting in person. Attendance at the Annual Meeting will not, by itself, revoke a proxy.

This proxy statement and the enclosed proxy are first being mailed together by the Company on or about April 2, 2004 to stockholders of record as of March 26, 2004. The Company's Annual Report for the fiscal year ended December 31, 2003 is being mailed to such stockholders of the Company concurrently with this proxy statement.

The principal executive offices of the Company are located at 815 Chestnut Street, North Andover, Massachusetts 01845.

The expenses of preparing, printing and assembling the materials used in the solicitation of proxies will be borne by the Company. In addition to the solicitation of proxies by use of the mails, the Company may also use the services of some of its officers and employees (who will receive no compensation therefor in addition to their regular salaries) to solicit proxies personally and by telephone and email. Brokerage houses, nominees, fiduciaries and other custodians will be requested to forward solicitation materials to the beneficial owners of shares held of record by them and will be reimbursed for their reasonable expenses.

Management of the Company does not know of any business other than the matters set forth in the Notice of Annual Meeting of Stockholders and described above that will be presented for consideration at the Annual Meeting. If any other business should come before the Annual Meeting, the proxies will be voted in accordance with the direction of the proxy holders. Each of the persons appointed by the enclosed form of proxy present and acting at the meeting, in person or by substitute, may exercise all of the powers and authority of the proxies in accordance with their judgment.

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PROPOSAL 1 ELECTION OF DIRECTORS

The Board has fixed the number of directors at seven and nominated each of the individuals named below for election as a director. If elected, each nominee will serve until the Company's 2005 Annual Meeting of Stockholders and until such director's successor shall have been duly elected and qualified. Proxies will be voted for each of the nominees named below unless otherwise specified in the proxy. All of the nominees are presently members of the Board. Management does not contemplate that any of the nominees will be unable to serve, but in that event, proxies solicited hereby may be voted either for a substitute nominee designated by the Board or the Board may choose to reduce the number of directors serving on the Board. Holders of shares representing votes sufficient to elect each of the nominees named below have indicated an intention to vote in favor of such nominees.

The Board of Directors recommends that stockholders vote FOR the election of each nominee as a director of the Company.

INFORMATION AS TO NOMINEES FOR DIRECTOR

Set forth below is the name and age of each nominee for director, his principal occupation for at least the past five years, the year each became a director of the Company and certain other information. The information is as of February 9, 2004.

<u>Name</u>	<u>Age</u>	<u>Present Principal Employment and Prior Business Experience</u>	<u>Director Since</u>
Timothy P. Horne	65	Chairman of the Board of Directors of the Company from April 1986 to August 2002. Chief Executive Officer from 1978 to August 2002. President from 1976 to 1978, from 1994 to April 1997 and from October 1999 to August 2002. Mr. Horne joined the Company in 1959, and retired	1962

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Name	Age	Present Principal Employment and Prior Business Experience	Director Since
		on December 31, 2002.	
Kenneth J. McAvoy	63	Chief Financial Officer and Treasurer of the Company from 1986 to 1999; Vice President of Finance from 1984 to 1994; Executive Vice President of European Operations from 1994 to 1996; Secretary from 1985 to 1999. Mr. McAvoy joined the Company in 1981, and retired on December 31, 1999.	1994
John K. McGillicuddy	60	Employed by KPMG LLP, a public accounting firm, from June 1965 until his retirement in June 2000. Elected into the Partnership at KPMG LLP in June 1975 where Mr. McGillicuddy served as Audit Partner, SEC Reviewing Partner, Partner-in-Charge of Professional Practice, Partner-in-Charge of College Recruiting and Partner-in-Charge of Staff Scheduling. Mr. McGillicuddy is a director of Brooks Automation, Inc.	2003
Gordon W. Moran	65	Non-executive Chairman of the Board since August 2002. Chairman of Hollingsworth & Vose Company, a paper manufacturer, since 1997, and served as its President and Chief Executive Officer from 1983 to 1998.	1990

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Daniel J. Murphy, III	62	Chairman of Northmark Bank, a commercial bank, since August 1987. Prior to forming Northmark Bank in 1987, Mr. Murphy was a Managing Director of Knightsbridge Partners, Inc., a venture capital firm, from January to August 1987 and President and a director of Arltru Bancorporation, a bank holding company, and its wholly owned subsidiary, Arlington Trust Company from 1980 to 1986.	1986
Patrick S. O'Keefe	51	Joined the Company in August 2002 as President and Chief Executive Officer. Prior to joining the Company, Mr. O'Keefe served as President, Chief Executive Officer and director of Industrial Distribution Group, a supplier of maintenance, repair, operating and production products, from 1999 to 2001. From 1997 to 1999, he was Chief Executive Officer of Zep Manufacturing, a unit of National Services Industries and a manufacturer of specialty chemicals. From 1994 to 1997, Mr. O'Keefe held various senior management positions with Crane Co.	2002
Roger A. Young	58	Chairman of the Board of Directors of Bay State Gas Company, a wholly owned subsidiary of NiSource, Inc., a holding company with operating companies engaged in the natural gas business, from 1996 until his retirement in 2003, and served on its Board from 1975 until his retirement in 2003. Mr. Young was Chief Executive Officer of Bay State Gas Company from 1990 to 1999, President from 1981 to 1996 and Chief Operating Officer from 1981 to 1990. Mr. Young is a director of NiSource, Inc.	1999

DIRECTORS' COMPENSATION

Each non-employee director receives a quarterly retainer of \$5,000 and \$500 per Board and committee meeting attended and also receives reimbursement for out-of-pocket expenses incurred in connection with attending such meetings. Under the terms of the Company's 2003 Non-Employee Directors' Stock Option Plan, each member of the Board who is neither an officer nor an employee of the Company automatically receives on an annual basis a fully exercisable non-qualified stock option to acquire 3,094 shares of class A common stock with an exercise price equal to the fair market value of the Company's class A common stock on the date of grant. On May 28, 2003, each non-employee director was automatically granted options to purchase 3,094 shares of class A common stock of the Company under the 2003 Non-Employee Directors' Stock Option Plan. All options were granted with an exercise price of \$17.30 per share and were fully exercisable upon grant.

Directors of the Company who are employees of the Company receive no compensation for their services as directors.

CORPORATE GOVERNANCE

Our Commitment to Good Corporate Governance

We believe that good corporate governance and an environment of the highest ethical standards are important for the Company to achieve business success and to create value for its stockholders. The Board is committed to high governance standards and to continually work to improve them. During the past year we have reviewed our corporate governance practices in view of the Sarbanes-Oxley Act of 2002, new final and proposed rules of the Securities and Exchange Commission ("SEC") and new corporate governance rules adopted by the NYSE. We have also compared our governance practices against those identified as best practices by various authorities and other public companies. As a result, we have implemented several new procedures and strengthened several existing procedures.

Role of Our Board of Directors

The Board monitors overall corporate performance and the integrity of the Company's financial controls and legal compliance procedures. It elects senior management and oversees succession planning and senior management's performance and compensation. The Board oversees the development of fundamental operating, financial and other corporate plans, strategies and objectives, and conducts a year-long process which culminates in Board review and approval each year of a business plan, a capital expenditures budget and other key financial and business objectives.

Members of the Board keep informed about the Company's business through discussions with the Chief Executive Officer and other members of the Company's senior management team, by reviewing materials provided to them on a regular basis and in preparation for Board and committee meetings and by participating in meetings of the Board and its committees. We regularly review key portions of the business with the Board. We introduce our executives to the Board so that the Board can become familiar with the Company's key employees.

In 2003, the Board met seven times. During 2003, each director attended at least 75% of the total number of meetings of the Board and all committees of the Board on which the director served.

Performance of Our Board

We consider it important to continually evaluate and improve the effectiveness of the Board, its committees and its individual members. Beginning in 2004, the Board and each of its standing committees will conduct annual self-evaluations. The Nominating and Corporate Governance Committee will oversee the Board's self-evaluation process.

Business Ethics and Compliance

We have adopted a Code of Business Conduct and Ethics applicable to all officers, employees and Board members. The Code of Business Conduct and Ethics is posted on our website, www.wattswater.com. In order to access this portion of our website, click on the "Investor Relations" tab. The Code of Business Conduct and Ethics is located under the "Corporate Governance" caption. Any amendments to, or waivers of, the Code of Business Conduct and Ethics which applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller or any person performing similar functions will be disclosed on our website promptly following the date of such amendment or waiver.

Independence of Non-Employee Directors

NYSE rules require that a majority of the Board consist of members who are independent. There are different measures of director independence independence under NYSE rules, under Section 16 of the Securities Exchange Act of 1934 and under Section 162(m) of the Internal Revenue Code of 1986. The Board has recently reviewed information about each of our non-employee directors and

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determined that Mr. McAvoy, Mr. McGillicuddy, Mr. Moran, Mr. Murphy and Mr. Young are independent directors.

Communications with the Board

The Board welcomes the submission of any comments or concerns from stockholders and any interested parties. Communications should be addressed to William C. McCartney, Secretary, Watts Water Technologies, Inc., 815 Chestnut Street, North Andover, MA 01845 and marked to the attention of the Board or any of its committees or individual directors.

Annual Meeting Attendance

Directors are encouraged to attend the Company's annual meetings of stockholders. Six directors attended the 2003 Annual Meeting of Stockholders.

Committees of the Board

The Board currently has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. Each committee is comprised solely of directors determined by the Board to be independent under the applicable NYSE and SEC rules. You may find copies of the charters of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee in the "Investor Relations" section of our website at www.wattswater.com. The Board also appoints from time to time ad hoc committees to address specific matters.

Audit Committee. The Audit Committee consists of Mr. McGillicuddy (Chair), who became a member of the Audit Committee in August 2003, Mr. Moran, Mr. Young, Mr. Murphy and Mr. McAvoy. The Board has determined that each of Mr. McGillicuddy and Mr. McAvoy is an "audit committee financial expert," as defined by SEC rules. During the fiscal year ended December 31, 2003, the Audit Committee held ten meetings. Our Audit Committee assists the Board in its oversight of the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications, independence and performance of the Company's independent auditors, and the performance of the Company's internal audit function. This includes the selection and evaluation of our independent auditors, the oversight of our systems of internal accounting and financial controls, the review of the annual independent audit of our financial statements, the review of the Company's Code of Business Conduct and Ethics, the establishment of "whistle-blowing" procedures, and the oversight of other compliance matters.

The SEC has promulgated, and the NYSE has adopted, new audit committee rules in response to the passage by the United States Congress in July 2002 of the Sarbanes-Oxley Act. In response to these recent developments, the Board adopted a revised charter for the Audit Committee in February 2004, which is attached as *Appendix A* to this proxy statement.

Compensation Committee. The Compensation Committee consists of Mr. Murphy (Chair), Mr. Moran and Mr. McAvoy. During the fiscal year ended December 31, 2003, the Compensation Committee held four meetings. The primary responsibilities of the Compensation Committee are to assist the Board in establishing compensation policies for the Board and the Company's executive officers, including reviewing and making recommendations to the Board, or in the case of the Chief Executive Officer to the independent members of the Board, regarding executive officer compensation. This committee also is responsible for administering the Company's equity incentive plans.

Nominating and Corporate Governance Committee. Our Nominating and Corporate Governance Committee consists of all of the independent members of the Board, which includes Mr. McAvoy (Chair), Mr. McGillicuddy, Mr. Moran, Mr. Young and Mr. Murphy. This committee was formed in

November 2003 and held its first meeting in February 2004. The Nominating and Corporate Governance Committee is responsible for identifying individuals qualified to become board members, consistent with criteria approved by the Board, and recommending that the Board select the director nominees for election at each annual meeting of stockholders. The Nominating and Corporate Governance Committee is also responsible for developing and recommending to the Board a set of corporate governance guidelines applicable to the Company, periodically reviewing such guidelines and recommending any changes thereto, and overseeing the evaluation of the Board and management.

The Nominating and Corporate Governance Committee will consider for nomination to the Board candidates recommended by stockholders. Recommendations should be sent to the Nominating and Corporate Governance Committee, c/o William C. McCartney, Secretary, Watts Water Technologies, Inc., 815 Chestnut Street, North Andover, MA 01845. In order to be considered for inclusion as a nominee for

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director at the Company's 2005 Annual Meeting of Stockholders, a recommendation must be received no later than December 3, 2004. Recommendations must be in writing and must contain the information set forth in Section IV.C of the Nominating and Corporate Governance Committee charter, which is available in the investor relations section of our website at www.wattswater.com. The minimum qualifications and specific qualities and skills required for directors are set forth in Exhibit A to the Nominating and Corporate Governance Committee charter. In addition to considering candidates suggested by stockholders, the Nominating and Corporate Governance Committee may consider potential candidates suggested by current directors, company officers, employees, third party search firms and others. The Nominating and Corporate Governance Committee screens all potential candidates in the same manner regardless of the source of the recommendation. The Nominating and Corporate Governance Committee's review is typically based on any written materials provided with respect to the potential candidate. The Nominating and Corporate Governance Committee determines whether the candidate meets the Company's minimum qualifications and specific qualities and skills for directors and whether requesting additional information or an initial screening interview is appropriate.

LEGAL PROCEEDING INVOLVING DIRECTOR

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

On February 21, 2003, Mr. Horne entered into an agreement with the SEC to settle the civil action. Pursuant to the agreement, Mr. Horne, without admitting or denying the allegations of the complaint filed by the SEC, consented to the entry of a final judgment against him which required him to disgorge profits gained as a result of the conduct alleged in the complaint, pay prejudgment interest, plus a civil money penalty, and which permanently restrains and enjoins him from violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

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PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding the beneficial ownership of our class A and class B common stock as of February 1, 2004, by:

each person or entity known by us to own beneficially 5% or more of either class of our common stock;

each of our directors;

each of the executive officers named in the summary compensation table; and

all of our directors and executive officers as a group.

In accordance with SEC rules, we have included in the number of shares beneficially owned by each stockholder all shares over which such stockholder has sole or shared voting or investment power, and we have included all shares that the stockholder has the right to acquire within 60 days after February 1, 2004 through the exercise of stock options, the vesting of restricted stock units or any other right. Unless otherwise indicated, each stockholder has sole voting and investment power with respect to shares beneficially owned by that stockholder. For purposes of computing the equity and voting percentages for each stockholder, any shares that such stockholder has the right to acquire within 60 days after February 1, 2004 are deemed to be outstanding, but are not deemed to be outstanding for the purpose of computing the percentages for any other stockholder.

Name of Beneficial Owner(1)	Shares Beneficially Owned(2)			
	Number	Percent of Class A Common Stock	Percent of Class B Common Stock	Percent of Voting Power

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Shares Beneficially Owned(2)

Timothy P. Horne(3)	7,625,876(4)(5)	23.77%	97.52%	73.70%
Gabelli Funds, LLC et al	6,906,661(6)	28.07	0	6.95
George B. Horne(3)	1,974,600(5)(7)	7.43	26.43	19.88
Daniel W. Horne(3)	1,238,115(5)(8)	4.80	16.21	12.22
Deborah Horne(3)	1,238,115(5)(8)	4.80	16.21	12.22
Peter W. Horne(3)	1,157,715(5)(9)	4.50	15.20	11.46
Paul A. Lacourciere	117,584(10)	*	0	*
Ernest E. Elliott	82,631(11)	*	0	*
William C. McCartney	70,498(12)	*	0	*
Daniel J. Murphy III	36,639(13)	*	0	*
Gordon W. Moran	31,940(14)	*	0	*
Kenneth J. McAvoy	22,376(15)	*	0	*
Roger A. Young	15,470(16)	*	0	*
John K. McGillicuddy	3,094(16)	*	0	*
Patrick S. O'Keefe	0	0	0	0
Lynn A. McVay	0	0	0	0
All executive officers and directors (16 persons)	8,056,452(17)	25.26	97.52	73.85

*

Represents less than 1%

(1)

The address of each stockholder in the table is c/o Watts Water Technologies, Inc., 815 Chestnut Street, North Andover, Massachusetts 01845, except that the address of Gabelli Funds, LLC et al. is One Corporate Center, Rye, NY 10586.

(2)

The number of shares and percentages has been determined as of February 1, 2004 in accordance with Rule 13d-3 of the Securities and Exchange Act of 1934. At that date, a total of 32,079,125 shares were outstanding, of which 24,607,425 were shares of class A common stock and 7,471,700

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were shares of class B common stock. Each share of class A common stock is entitled to one vote and each share of class B common stock is entitled to ten votes. Each share of class B common stock is convertible into one share of class A common stock. A holder of shares of class B common stock is deemed to beneficially own the shares of class A common stock into which the class B shares are convertible. Shares of class A common stock are not convertible. The table's voting percentage reflects the applicable beneficial owner's one vote per share of class A common stock plus ten votes per share of class B common stock, if any, divided by the total number of possible votes.

(3)

Timothy P. Horne, George B. Horne, Daniel W. Horne, Deborah Horne and Peter W. Horne may be deemed a "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934.

(4)

Includes (i) 1,701,220 shares of class B common stock and 336,642 shares of class A common stock, held by Timothy P. Horne (for purposes of this footnote 4, "Mr. Horne"), (ii) 1,210,840 shares of class B common stock and 25,000 shares of class A common stock held by a revocable trust for the benefit of Daniel W. Horne, Mr. Horne's brother, for which Mr. Horne serves as sole trustee, (iii) 1,210,840 shares of class B common stock and 25,000 shares of class A common stock held by a revocable trust for the benefit of Deborah Horne, Mr. Horne's sister, for which Mr. Horne serves as sole trustee, which trust is revocable with the consent of the trustee, (iv) 1,085,840 shares of class B common stock held by a revocable trust for the benefit of Peter W. Horne, Mr. Horne's brother, for which Peter W. Horne serves as sole trustee, (v) 1,974,600 shares of class B common stock held for the benefit of George B. Horne, Mr. Horne's father, under a revocable trust for which Mr. Horne and George B. Horne serve as co-trustees, (vi) 22,600 and 30,200 shares of class B common stock held for the benefit of Tiffany Rae Horne and Tara V. Horne (Mr. Horne's daughters), respectively, under irrevocable trusts for which Mr. Horne serves as trustee, and (vii) 3,094 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2004. All of the shares of class B common stock noted in clause (i),

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1,185,840 of the shares of class B common stock noted in clause (ii), 1,185,840 of the shares of class B common stock noted in clause (iii), all of the shares of class B common stock noted in clause (iv), all of the shares of class B common stock noted in clause (v), and all of the shares of class B common stock noted in clause (vi) (7,186,140 shares of class B common stock in the aggregate) are subject to The Amended and Restated George B. Horne Voting Trust Agreement 1997 ("1997 Voting Trust") for which Mr. Horne serves as trustee. (See footnote 5 for a description of the 1997 Voting Trust). All shares beneficially owned or which may be deemed to be beneficially owned by Mr. Horne are class B common stock except for the 336,642 shares of class A common stock noted in clause (i) and all of the shares noted in clause (vii) of this footnote.

(5)

7,186,140 shares of class B common stock in the aggregate (see footnote 4) are subject to the terms of the 1997 Voting Trust. Under the terms of the 1997 Voting Trust, the trustee (currently Timothy P. Horne) has sole power to vote all shares subject to the 1997 Voting Trust. Timothy P. Horne, for so long as he is serving as trustee of the 1997 Voting Trust, has the power to determine in his sole discretion whether or not proposed actions to be taken by the trustee of the 1997 Voting Trust shall be taken, including the trustee's right to authorize the withdrawal of shares from the 1997 Voting Trust (for purposes of this footnote, the "Determination Power"). In the event that Timothy P. Horne ceases to serve as trustee of the 1997 Voting Trust, no trustee thereunder shall have the Determination Power except in accordance with a duly adopted amendment to the 1997 Voting Trust. Under the terms of the 1997 Voting Trust, in the event that Timothy P. Horne ceases to serve as trustee of the 1997 Voting Trust, then Daniel J. Murphy III, a director of the Company, David F. Dietz, who is a partner in the law firm of Goodwin Procter LLP, and Walter J. Flowers, a partner in the law firm of Flowers and Manning (each, a "Successor Trustee" and

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collectively, the "Successor Trustees"), shall thereupon become co-trustees of the 1997 Voting Trust. If a Successor Trustee shall cease to serve as such for any reason, then a third person shall become a co-trustee with the remaining two Successor Trustees, in accordance with the following line of succession: first, any individual designated as the Primary Designee, next, any individual designated as the Secondary Designee, and then, an individual appointed by the holders of a majority in interest of the voting trust certificates then outstanding. In the event that the Successor Trustees do not unanimously concur on any matter not specifically contemplated by the terms of the 1997 Voting Trust, the vote of a majority of the Successor Trustees shall be determinative. The 1997 Voting Trust expires on August 26, 2021, subject to extension on or after August 26, 2019 by stockholders (including the trustee of any trust stockholder, whether or not such trust is then in existence) who deposited shares of class B common stock in the 1997 Voting Trust and are then living or, in the case of shares in the 1997 Voting Trust the original depositor of which (or the trustee of the original depositor of which) is not then living, the holders of voting trust certificates representing such shares. The 1997 Voting Trust may be amended by vote of the holders of a majority of the voting trust certificates then outstanding and by the number of trustees authorized to take action at the relevant time or, if the trustees (if more than one) do not concur with respect to any proposed amendment at any time when any trustee holds the Determination Power, then by the trustee having the Determination Power. Amendments to the extension, termination and amendment provisions of the 1997 Voting Trust require the approval of each individual depositor. Shares may not be removed from the 1997 Voting Trust during its term without the consent of the requisite number of trustees required to take action under the 1997 Voting Trust. Voting trust certificates are subject to any restrictions on transfer applicable to the stock that they represent. Timothy P. Horne holds 23.7% of the total beneficial interest in the 1997 Voting Trust (the "Beneficial Interest") individually, 16.5% of the Beneficial Interest as trustee of a revocable trust, 16.5% of the Beneficial Interest as trustee of a trust revocable with the consent of the trustee, 27.5% of the beneficial interest as co-trustee of a revocable trust, and 0.4% and 0.3% of the beneficial interest as trustee of two irrevocable trusts (representing an aggregate of 100% of the Beneficial Interest). George B. Horne holds 27.5% of the beneficial interest as co-trustee of a revocable trust. Tara V. Horne as beneficiary of an irrevocable trust holds 0.4% of the Beneficial Interest. Tiffany R. Horne as beneficiary of an irrevocable trust holds 0.3% of the Beneficial Interest.

(6)

The information is based on a Schedule 13D filed with the SEC on December 16, 2003 by Gabelli Funds, LLC, GAMCO Investors, Inc., MJG Associates, Inc., Gabelli Advisers, Inc., Gabelli Group Capital Partners, Inc., Gabelli Asset Management Inc., and Mario J. Gabelli reporting their aggregate holdings of shares of class A common stock. Such holdings represented 28.95% of the Company's 23,859,121 shares of class A common stock outstanding as reported in the Company's prospectus dated December 10, 2003, as filed with the SEC on December 11, 2003. Mario J. Gabelli directly and indirectly controls the entities filing the Schedule 13D which entities are primarily investment advisors to various institutional and individual clients, including registered investment companies and pension plans, as broker/dealer and as general partner of various private investment partnerships. Each of the reporting persons and other related entities has the sole power to vote or direct the vote and sole power to dispose or to direct the disposition of the securities reported for it, either for its own benefit or for the benefit of its investment clients or its partners, except that (i) GAMCO does not have the authority to vote 321,800 of the reported shares; (ii) Gabelli Funds has sole dispositive and voting power with respect to the shares of the Company held by each of the funds for which Gabelli Funds provides discretionary managed account services (collectively, the "Funds") so long as the aggregate voting interest of all joint filers does not exceed 25% of their total voting interest in the Company and, in that event, the proxy voting committee of each Fund shall respectively vote that Fund's shares; (iii) at any time, the proxy voting committee of each Fund may take and exercise in its sole discretion the entire

voting power with respect to the shares held by such Fund under special circumstances such as regulatory considerations; and (iv) the power of Mario Gabelli, Gabelli Asset Management Inc. and Gabelli Group Capital Partners, Inc. is indirect with respect to the class A common stock beneficially owned directly by other persons referenced above.

- (7) Consists of 1,974,600 shares of class B common stock held in a revocable trust for which Timothy P. Horne and George B. Horne serve as co-trustees. 1,724,600 of such shares of class B common stock are subject to the 1997 Voting Trust (see footnote 5 for a description of the 1997 Voting Trust).
- (8) All shares are class B common stock, except for 27,275 shares of class A common stock. All shares, except for 2,275 shares of class A common stock, are held in a revocable trust for which Timothy P. Horne serves as sole trustee. 1,185,840 of the class B common stock shares are subject to the 1997 Voting Trust (see footnote 5 for a description of the 1997 Voting Trust).
- (9) All shares are class B common stock except for 21,875 shares of class A common stock. The shares of class B common stock are held in a revocable trust for which Peter W. Horne serves as sole trustee. 1,085,840 of the class B common stock shares are subject to the 1997 Voting Trust (see footnote 5 for a description of the 1997 Voting Trust).
- (10) Consists of 28,439 shares of class A common stock and 89,145 shares of class A common stock issuable upon the exercise of stock options or upon the vesting of restricted stock units within 60 days after February 1, 2004.
- (11) Includes (i) 80,716 shares of class A common stock issuable upon the exercise of stock options or upon the vesting of restricted stock units within 60 days after February 1, 2004, and (ii) 50 shares of class A common stock held by Mr. Elliott's wife.
- (12) Consists of (i) 2,000 shares of class A common stock, and (ii) 68,498 shares of class A common stock issuable upon the exercise of stock options or upon the vesting of restricted stock units within 60 days after February 1, 2004.
- (13) Consists of (i) 5,299 shares of class A common stock, (ii) 400 shares of class A common stock beneficially owned by Mr. Murphy as trustee of a trust, and (iii) 30,940 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2004.
- (14) Consists of (i) 1,000 shares of class A common stock, and (ii) 30,940 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2004.
- (15) Consists of (i) 10,000 shares of class A common stock, and (ii) 12,376 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2004.
- (16) Consists of shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2004.
- (17) Includes (i) 7,286,140 shares of class B common stock, (ii) 396,275 shares of class A common stock, and (iii) 374,037 shares of class A common stock issuable upon the exercise of stock options or upon the vesting of restricted stock units within 60 days after February 1, 2004.

Summary Compensation Table

The following table contains information with respect to the compensation for the years ended December 31, 2003, December 31, 2002 and December 31, 2001 of the Company's Chief Executive Officer and the Company's four most highly compensated executive officers, other than the Chief Executive Officer, who were serving as executive officers at the end of the last completed fiscal year (the "named executive officers").

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards		
		Salary(\$)	Bonus\$(1)	Other Annual Compensation(\$)	Restricted Stock Units\$(2)	Securities Underlying Options(#)	All Other Compensation\$(3)
Patrick S. O'Keefe(4) <i>President and Chief Executive Officer</i>	2003	383,333		92,269(5)	658,356(6)	50,000	2,220
	2002	145,833	145,857	30,818(5)	(7)	50,000	370
	2001						
William C. McCartney <i>Chief Financial Officer, Treasurer and Secretary</i>	2003	230,000	104,650	5,463(8)	156,218(9)	25,000	2,220
	2002	223,333		4,060(8)	295,673(9)	25,000	2,220
	2001	210,000		3,098(8)	78,989(9)	25,000	2,220
Paul A. Lacourciere <i>Vice President of Manufacturing</i>	2003	195,000	89,674	12,600(10)	149,276(11)	20,000	2,220
	2002	191,667	80,011	33,795(10)	119,981(11)	20,000	2,220
	2001	184,000	14,031	12,600(10)	21,047(11)	20,000	2,220
Ernest E. Elliott <i>Executive Vice President of Wholesale Marketing</i>	2003	190,000	92,618	2,264(12)	138,262(13)	15,000	2,220
	2002	186,667	63,758	16,317(12)	95,600(13)	15,000	2,220
	2001	182,333	6,831	1,987(12)	30,727(13)	15,000	2,220
Lynn A. McVay(14) <i>Executive Vice President of Wholesale Sales</i>	2003	162,308	87,532	76,750(15)	130,672(16)	15,000	1,241
	2002						
	2001						

(1) Amounts awarded under the Executive Incentive Bonus Plan, as amended. Certain of the named executive officers elected to receive Restricted Stock Units ("RSUs") in lieu of all or a portion of a cash bonus.

(2) Represents the dollar value (net of any consideration paid by the named executive officer) of RSUs received under the Company's Management Stock Purchase Plan determined by multiplying the number of RSUs received by the closing market prices of the class A common stock of \$23.14, \$15.76 and \$14.05, on the RSU grant dates of February 27, 2004, February 19, 2003 and February 5, 2002, respectively. Each of the named executive officers made an election under the Management Stock Purchase Plan in June 2003, June 2002 and/or June 2001, as applicable, to receive RSUs (i) in lieu of a specified percentage or dollar amount of his actual annual incentive cash bonus or (ii) for a specified dollar amount, up to 100% of his targeted maximum cash bonus, for fiscal years ended December 31, 2003, December 31, 2002 and December 31, 2001, respectively. With respect to fiscal years 2003, 2002 and 2001, RSUs were awarded as of February 27, 2004, February 19, 2003 and February 5, 2002, respectively (the dates annual incentive bonuses were paid) by dividing the named executive officers election amount by the RSU cost. The RSU cost was \$15.50, \$10.51 and \$9.37 per RSU for fiscal years 2003, 2002 and 2001, respectively, which was 67% of \$23.14, \$15.76 and \$14.05, the closing market prices of the Company's class A common stock on February 27, 2004, February 19, 2003 and February 5, 2002, respectively ("2003 RSU Cost," "2002 RSU Cost," and "2001 RSU Cost"). Each RSU is 100% vested three years after the date of the grant. At the end of a deferral period, if one has been specified by the named executive officer under the Management Stock Purchase Plan, the Company will issue one share of class A common stock for each vested RSU. Cash dividends, equivalent to those paid on the Company's class A common stock, will be credited to the named executive officer's account for non-vested

RSUs and will be paid in cash to such person when such RSUs become vested. Such dividends will also be paid in cash to individuals for vested RSUs held during any deferral period.

(3) Consists of term life and disability insurance premiums paid by the Company.

(4) Mr. O'Keefe became President and Chief Executive Officer of the Company in August 2002.

(5) In 2003 and 2002, Mr. O'Keefe's primary residence was in Atlanta, Georgia and the Company provided an apartment for his use when he was in Massachusetts. The amounts indicated for Mr. O'Keefe under Other Annual Compensation include housing expenses (including rent, laundry service and meals), airfare to and from Georgia, reimbursement for Mr. O'Keefe's income tax liability with respect to such housing and airfare and amounts attributable to Mr. O'Keefe's personal use of an automobile leased by the Company, as follows:

	<u>2003</u>	<u>2002</u>
Housing expenses	\$ 38,742	\$ 10,367
Airfare to and from Georgia	12,372	7,181
Income tax reimbursement	36,635	12,577
Personal use of Company automobile	4,520	693

(6) Mr. O'Keefe received 28,451 RSUs in lieu of receiving his entire bonus earned in 2003 of \$441,000. The number of RSUs was determined by dividing \$441,000 by the 2003 RSU Cost. Mr. O'Keefe did not hold any RSUs at December 31, 2003.

(7) Mr. O'Keefe did not participate in the Management Stock Purchase Plan in fiscal year 2002, because he began employment with the Company after the election deadline.

(8) The amounts indicated for Mr. McCartney under Other Annual Compensation include amounts attributable to Mr. McCartney's personal use of an automobile leased by the Company and amounts used for personal travel by Mr. McCartney under the Company's travel incentive program. Under the Company's travel incentive program, employees could earn credit equal to 50% of the amount of any savings to the Company on business travel expenses obtained through cost-effective travel planning by the employee. The employee could then apply the travel credit toward personal travel expenses (the "Travel Incentive Program"). The Travel Incentive Program was discontinued after 2002. Mr. McCartney's Other Annual Compensation includes:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Personal use of Company automobile	\$ 5,463	\$ 3,371	\$ 3,098
Travel Incentive Program		689	

(9) For fiscal year 2003, Mr. McCartney received 6,751 RSUs in lieu of receiving 50% of his annual incentive bonus of \$209,300, or \$104,650. The number of RSUs was determined by dividing \$104,650 by the 2003 RSU Cost. For fiscal year 2002, Mr. McCartney received 18,761 RSUs in lieu of receiving his entire bonus of \$197,174. The number of RSUs was determined by dividing \$197,174 by the 2002 RSU Cost. For fiscal year 2001, Mr. McCartney received 5,622 RSUs in lieu of receiving his entire bonus of \$52,668. The number of RSUs was determined by dividing \$52,668 by the 2001 RSU cost. Mr. McCartney held 32,394 RSUs at December 31, 2003 with a value of \$719,147 as determined in accordance with footnote 2 above, except based on a closing market price of the Company's class A common stock of \$22.20 on December 31, 2003.

- (10) The amounts indicated for Mr. Lacourciere under Other Annual Compensation include an automobile allowance and amounts used under the Travel Incentive Program (see footnote 8 for a description of the Travel Incentive Program), as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Automobile allowance	\$ 12,600	\$ 12,600	\$ 12,600
Travel Incentive Program		21,195	

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- (11) For fiscal year 2003, Mr. Lacourciere received 6,451 RSUs in lieu of receiving \$100,000 of his annual incentive bonus of \$189,674. The number of RSUs was determined by dividing \$100,000 by the 2003 RSU Cost. For fiscal year 2002, Mr. Lacourciere received 7,613 RSUs in lieu of receiving 50% of his annual incentive bonus of \$160,021, or \$80,011. The number of RSUs was determined by dividing \$80,011 by the 2002 RSU Cost. For fiscal year 2001, Mr. Lacourciere received 1,498 RSUs in lieu of receiving 50% of his annual incentive bonus of \$28,063, or \$14,032. The number of RSUs was determined by dividing \$14,032 by the 2001 RSU Cost. Mr. Lacourciere held 14,432 RSUs at December 31, 2003 with a value of \$320,390 as determined in accordance with footnote 2 above, except based on a closing market price of the Company's class A common stock of \$22.20 on December 31, 2003.

- (12) The amounts indicated for Mr. Elliott under Other Annual Compensation include amounts attributable to Mr. Elliott's personal use of an automobile leased by the Company, amounts used under the Travel Incentive Program (see footnote 8 for a description of the Travel Incentive Program) and the payment of country club dues as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Personal use of Company automobile	\$ 2,264	\$ 2,262	\$ 1,987
Travel Incentive Program		10,303	
Country club dues		3,752	

- (13) For fiscal year 2003, Mr. Elliott received 5,975 RSUs in lieu of receiving 50% of his annual incentive bonus of \$185,237, or \$92,618. The number of RSUs was determined by dividing \$92,618 by the 2003 RSU Cost. For fiscal year 2002, Mr. Elliott received 6,066 RSUs in lieu of receiving 50% of his annual incentive bonus of \$127,516, or \$63,758. The number of RSUs was determined by dividing \$63,758 by the 2002 RSU Cost. For fiscal year 2001, Mr. Elliott received 2,187 RSUs in lieu of receiving 75% of his annual incentive bonus of \$27,325, or \$20,494. The number of RSUs was determined by dividing \$20,494 by the 2001 RSU Cost. Mr. Elliott held 35,027 RSUs at December 31, 2003 with a value of \$777,599 as determined in accordance with footnote 2 above, except based on a closing market price of the Company's class A common stock of \$22.20 on December 31, 2003.

- (14) Mr. McVay became Executive Vice President of Wholesale Sales of the Company in March 2003.

- (15) Consists of \$70,812 paid to Mr. McVay for relocation expenses and \$5,938 attributable to Mr. McVay's personal use of an automobile leased by the Company.

- (16) For fiscal year 2003, Mr. McVay received 5,647 RSUs in lieu of receiving 50% of his annual incentive bonus of \$175,065, or \$87,532. The number of RSUs was determined by dividing \$87,532 by the 2003 RSU Cost. Mr. McVay did not hold any RSUs at December 31, 2003.

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Stock Option Grants

The following table shows information concerning options to purchase the Company's class A common stock granted during 2003 to the named executive officers.

Individual Grants

Name	Options Granted(#)(1)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price(\$/sh)(2)	Market Price on Date Grant of	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3)	
						5% (\$)	10% (\$)
Patrick S. O'Keefe	50,000	21.8	17.50	17.50	8/6/2013	550,500	1,394,500
William C. McCartney	25,000	10.9	17.50	17.50	8/6/2013	275,250	697,250
Paul A. Lacourciere	20,000	8.7	17.50	17.50	8/6/2013	220,200	557,800
Ernest E. Elliott	15,000	6.5	17.50	17.50	8/6/2013	165,150	418,350
Lynn A. McVay	15,000	6.5	17.50	17.50	8/6/2013	165,150	418,350

(1) All options were granted under the 1996 Stock Option Plan as of August 6, 2003. All options vest over five years at the rate of 20% per year on successive anniversaries of the date of grant and generally terminate upon the earlier of the termination of employment, subject to certain exceptions, or ten years from the date of grant.

(2) Represents the closing sale price on the date of grant.

(3) Based upon the closing sale price on the date of grant and an annual appreciation at the rate stated through the expiration date of such options. The dollar amounts in these columns are the result of calculations at the 5% and 10% rates set by the SEC and therefore are not intended to forecast possible future appreciation, if any, of the Company's stock price.

Aggregated Option Exercises and Option Values

The following table shows information concerning the exercise of stock options during fiscal year 2003 by each of the named executive officers and the fiscal year-end value of unexercised options.

Name	Number of Shares Underlying Options Exercised (#)	Value Realized(1)	Number of Unexercised Options at Fiscal Year End(#)(2)		Value of Unexercised In-the-Money Options At Fiscal Year End(3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Patrick S. O'Keefe	0	\$ 0	10,000	90,000	\$ 64,500	\$ 493,000
William C. McCartney	51,582	311,118	60,486	73,713	398,219	492,235
Paul A. Lacourciere	22,278	98,799	87,747	59,713	681,289	401,035
Ernest E. Elliott	19,245	79,366	80,716	45,713	655,891	309,835
Lynn A. McVay	0	0	0	15,000	0	70,500

(1) Based on the difference between the market price on the date of exercise and the exercise price of the options before income taxes.

(2) Options vest over five years at the rate of 20% per year on successive anniversaries of the grant date and generally terminate upon the earlier of the termination of employment, subject to certain exceptions, or ten years from the date of grant.

- (3) Based on the difference between the market price on the last day of the fiscal year and the exercise price of the options before income taxes.

Compensation Committee Interlocks and Insider Participation

None of the members of the Company's Compensation Committee is an executive officer of the Company.

Pension Plan

The Company maintains a qualified noncontributory defined benefit pension plan (the "Pension Plan") for eligible salaried employees of the Company and its subsidiaries, including the named executive officers specified in the "Summary Compensation Table" above, and it maintains a nonqualified noncontributory defined benefit supplemental plan (the "Supplemental Plan") generally for certain highly compensated employees. The eligibility requirements of the Pension Plan are attainment of age 21 and one year of service of 1,000 or more hours. The assets of the Pension Plan are maintained in a trust fund at Smith Barney Corporate Trust Company. The Pension Plan is administered by the Pension Plan Committee, which is appointed by the Board of Directors of the Company. Annual contributions to the Pension Plan are computed by an actuarial firm based on normal pension costs and a portion of past service costs. The Pension Plan provides for monthly benefits to, or on behalf of, each covered employee at age 65 and has provisions for early retirement after ten years of service and attainment of age 55 and surviving spouse benefits after five years of service. Covered employees who terminate employment prior to retirement with at least five years of service are vested in their accrued retirement benefit. The Pension Plan is subject to the Employee Retirement Income Security Act of 1974, as amended.

The annual normal retirement benefit for employees under the Pension Plan is 1.67% of Final Average Compensation (as defined in the Pension Plan) multiplied by years of service (maximum 25 years), reduced by the Maximum Offset Allowance (as defined in the Pension Plan). For employment terminations after the 2001 plan year, annual compensation in excess of \$205,000 per year (subject to cost of living adjustments) is disregarded under the Pension Plan for all purposes. However, benefits accrued prior to the 1989 plan year may be based on compensation in excess of \$205,000. Compensation recognized under the Pension Plan includes base salary and annual bonus.

The Supplemental Plan provides additional monthly benefits to (i) a select group of key executives, including the Company's Chief Executive Officer, (ii) to individuals who were projected to receive reduced benefits as a result of changes made to the Pension Plan to comply with the Tax Reform Act of 1986 and (iii) to executives who will be affected by IRS limits on Pension Plan Compensation. Tier one benefits are provided to a select group of key executives. The annual benefit under this tier payable at normal retirement is equal to the difference between (1) 2% of the highest three year average pay multiplied by years of service up to ten years, plus 3% of average pay times years of service in excess of ten years (but not to exceed 20 years), to a maximum of 50% of average pay and (2) the annual benefit payable under the Pension Plan described above. Normal retirement under this tier is age 62.

Tier one-A benefits are provided to a select group of key executives. The annual benefit payable under this tier is equal to the difference between (1) 1.75% of the highest three year average pay multiplied by years of service up to ten years, plus 2.25% of average pay times years of service in excess of ten years (but not to exceed 20 years), to a maximum of 40% of average pay and (2) the annual benefit payable under the Pension Plan described above. Normal retirement under this tier is age 62.

The following table illustrates total annual normal retirement benefits (payable from both the Pension Plan and from the Supplemental Plan and assuming attainment of age 62 during 2003) for

various levels of Final Average Compensation and years of benefit service under Tier one of the Supplemental Plan.

Final Average Compensation for Three Highest Consecutive Years	Estimated Total Annual Retirement Benefit (Pension Plan plus Supplemental Plan, Tier one) Based on Years of Service(1)
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in Last 10 Years:	Estimated Total Annual Retirement Benefit (Pension Plan plus Supplemental Plan, Tier one) Based on Years of Service(1)			
	5 Years	10 Years	15 Years	20 Years
\$100,000	\$ 10,000	\$ 20,000	\$ 35,000	\$ 50,000
150,000	15,000	30,000	52,500	75,000
200,000				