

WATTS WATER TECHNOLOGIES INC  
Form DEF 14A  
March 25, 2014

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

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 under §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)(1) and 0-11.

Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

- (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:
-

Table of Contents

**Watts Water Technologies, Inc.**  
**March 31, 2014**

Dear Stockholder:

It is my pleasure to invite you to attend our 2014 Annual Meeting of Stockholders, which will be held on Wednesday, May 14, 2014 at 9:00 a.m. at our principal executive offices located at 815 Chestnut Street, North Andover, Massachusetts 01845. On the pages following this letter you will find the notice of our 2014 Annual Meeting, which lists the business matters to be considered at the meeting, and the proxy statement, which describes the business matters listed in the notice. Following completion of the scheduled business at the 2014 Annual Meeting, we will report on our operations and answer questions from stockholders.

Whether or not you plan to attend the 2014 Annual Meeting, your vote is important and we encourage you to vote promptly. You may vote your shares by mailing a completed proxy card or, if your proxy card or other instruction form so indicates, by telephone or over the Internet.

We hope that you will be able to join us at the 2014 Annual Meeting.

Sincerely,

DEAN P. FREEMAN  
*President, Chief Executive Officer  
and Chief Financial Officer*

---

Table of Contents

**WATTS WATER TECHNOLOGIES, INC.**  
**815 Chestnut Street**  
**North Andover, MA 01845**

---

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on May 14, 2014**

---

To the Stockholders of  
Watts Water Technologies, Inc.

Notice is hereby given that the 2014 Annual Meeting of Stockholders of Watts Water Technologies, Inc., a Delaware corporation, will be held at our principal executive offices located at 815 Chestnut Street, North Andover, Massachusetts 01845, on Wednesday, May 14, 2014, at 9:00 a.m., local time, for the following purposes:

1. To elect eight directors to our Board of Directors, each to hold office until our 2015 Annual Meeting of Stockholders and until such director's successor is duly elected and qualified;
2. To ratify the appointment of KPMG LLP as our independent registered public accounting firm for the current fiscal year; and
3. To approve, by a non-binding advisory vote, our executive compensation.

The stockholders will also 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 21, 2014 are entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

By Order of the Board of Directors

KENNETH R. LEPAGE  
*General Counsel,*  
*Executive Vice President of Human Resources*  
*and Secretary*

North Andover, Massachusetts  
March 31, 2014

---

Table of Contents

**TABLE OF CONTENTS**

	<b>Page</b>
<u>INFORMATION ABOUT THE ANNUAL MEETING</u>	1
<u>Information About this Proxy Statement</u>	1
<u>Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on May 14, 2014</u>	1
<u>Information About Voting</u>	1
<u>Quorum; Required Votes; Abstentions and Broker Non-Votes</u>	2
<u>Solicitation of Proxies</u>	3
<u>Other Business to be Considered</u>	3
<u>PROPOSAL 1: ELECTION OF DIRECTORS</u>	3
<u>Information as to Nominees for Director</u>	4
<u>Director Compensation</u>	7
<u>CORPORATE GOVERNANCE</u>	10
<u>Our Commitment to Good Corporate Governance</u>	10
<u>Role of Our Board of Directors</u>	10
<u>Performance of Our Board and Committees</u>	11
<u>Business Ethics and Compliance</u>	11
<u>Director Independence</u>	11
<u>Horne Family Board Participation</u>	12
<u>Corporate Governance Guidelines</u>	12
<u>Executive Sessions</u>	12
<u>Communications with the Board</u>	12
<u>Annual Meeting Attendance</u>	12
<u>Committees of the Board</u>	12
<u>Director Candidates</u>	14
<u>Compensation Committee Interlocks and Insider Participation</u>	15
<u>Restrictions on Hedging and Pledging Transactions</u>	16
<u>Certain Relationships and Related Transactions</u>	16
<u>PRINCIPAL STOCKHOLDERS</u>	18
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	23
<u>Overview of Compensation Programs</u>	23
<u>Executive Summary</u>	23
<u>Compensation Philosophy</u>	25
<u>Benchmarking</u>	26
<u>Elements of Compensation</u>	27
<u>Compensation Recovery</u>	32
<u>Employment Agreements</u>	32
<u>Post-Termination Compensation and Change in Control Arrangements</u>	32
<u>Stock Ownership Guidelines</u>	32
<u>Impact of Regulatory Requirements</u>	33
<u>EXECUTIVE COMPENSATION</u>	34
<u>Compensation Summary</u>	34
<u>Grants of Plan-Based Awards</u>	37
<u>Outstanding Equity Awards at Fiscal Year-End</u>	39
<u>Option Exercises and Stock Vested</u>	40
<u>Pension Benefits</u>	40
<u>Nonqualified Deferred Compensation</u>	43
<u>Potential Payments Upon Termination or Change in Control</u>	44
<u>COMPENSATION COMMITTEE REPORT</u>	45

Table of Contents

	<b>Page</b>
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	<u>45</u>
<u>AUDIT COMMITTEE REPORT</u>	<u>45</u>
<u>PROPOSAL 2: RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	<u>46</u>
<u>PROPOSAL 3: ADVISORY VOTE ON EXECUTIVE COMPENSATION</u>	<u>47</u>
<u>HOUSEHOLDING OF ANNUAL MEETING MATERIALS</u>	<u>48</u>
<u>STOCKHOLDER PROPOSALS</u>	<u>48</u>

Table of Contents

**WATTS WATER TECHNOLOGIES, INC.**

---

**ANNUAL MEETING OF STOCKHOLDERS  
May 14, 2014**

**PROXY STATEMENT**

---

**INFORMATION ABOUT THE ANNUAL MEETING**

Our 2014 Annual Meeting of Stockholders will be held on Wednesday, May 14, 2014 at 9:00 a.m., local time, at our principal executive offices located at 815 Chestnut Street, North Andover, Massachusetts 01845. For directions to our principal executive offices, please visit the 2014 Annual Meeting page on our website at <http://www.wattswater.com/2014annualmeeting>. If you have any questions about the 2014 Annual Meeting, please contact Kenneth Lepage, our corporate Secretary, by telephone at (978) 688-1811 or by sending a written request for information addressed to Kenneth Lepage at our principal executive offices.

**Information About this Proxy Statement**

You have received this proxy statement because the Board of Directors of Watts Water Technologies, Inc. (which we also refer to as Watts Water or the Company) is soliciting your proxy to vote your shares at the 2014 Annual Meeting and at any adjournment or postponement of the 2014 Annual Meeting. This proxy statement includes information that we are required to provide to you under the rules of the Securities and Exchange Commission, or SEC, and is designed to assist you in voting your shares. Only stockholders of record at the close of business on March 21, 2014 are entitled to receive notice of and to vote at the Annual Meeting.

**We are mailing this proxy statement and the accompanying proxy on or about March 31, 2014 to our stockholders of record as of March 21, 2014. We are also mailing our Annual Report for the fiscal year ended December 31, 2013 to such stockholders concurrently with this proxy statement. Our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 is available on our website at <http://www.wattswater.com>. If you are a stockholder and would like a copy of our Annual Report on Form 10-K or any of its exhibits sent to you, we will send it to you without charge. Please address all such requests to Kenneth Lepage at our principal executive offices.**

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on May 14, 2014**

The proxy statement and annual report to security holders are available at <http://www.wattswater.com/2014annualmeeting>.

**Information About Voting**

Each share of our class A common stock, par value \$0.10 per share, outstanding on the record date is entitled to one vote on each matter submitted, and each share of our class B common stock, par value \$0.10 per share, outstanding on the record date is entitled to ten votes on each matter submitted. As of the close of business on March 21, 2014, there were outstanding and entitled to vote 28,678,077 shares of class A common stock and 6,489,290 shares of class B common stock.

*Stockholders of Record.* Stockholders of record may vote in person at the Annual Meeting or by proxy. There are three ways to vote by proxy:

By telephone Stockholders of record located in the United States and Canada can vote by calling the toll-free telephone number listed on the proxy card and following the instructions on the proxy card;





Table of Contents

By Internet Stockholders of record can vote over the Internet by visiting the website listed on the proxy card and following the instructions on the proxy card; or

By mail Stockholders of record may vote by mail by signing, dating and mailing the enclosed proxy card and returning it in the enclosed prepaid envelope.

If a choice is specified in a proxy, shares represented by that proxy will be voted in accordance with such choice. If no choice is specified, the proxy will be voted "FOR" the election of each of the eight nominees for the Board of Directors, the ratification of the appointment of KPMG LLP, and the approval on an advisory basis of our executive compensation.

You may revoke or change your proxy at any time before it is exercised by (i) delivering to us a signed proxy card with a date later than that of your previously delivered proxy, (ii) voting in person at the Annual Meeting, (iii) granting a subsequent proxy through the Internet or by telephone, or (iv) sending a written revocation to our corporate Secretary at our principal executive offices. Attending the Annual Meeting will not revoke your proxy unless you specifically request that your proxy be revoked by sending a written revocation to our corporate Secretary before the proxy is exercised or you vote in person at the Annual Meeting.

*Beneficial Owners.* If you are a beneficial owner and your shares are held in "street name" by a bank, broker or other holder of record, you will receive instructions from the holder of record as to how to vote your shares. You will need to follow the instructions of the holder of record in order to vote your shares. Many banks and brokers offer the option of voting over the Internet or by telephone, instructions for which would be provided by your bank or broker on your voting instruction form. If your shares are not registered in your own name and you plan to vote your shares in person at the Annual Meeting, you should contact your broker or agent to obtain a legal proxy or broker's proxy card and bring it to the Annual Meeting in order to vote.

**Quorum; Required Votes; Abstentions and Broker Non-Votes**

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 our Annual Meeting. Abstentions and broker non-votes will be counted for purposes of determining whether a quorum is present for the transaction of business at the Annual Meeting. A "broker non-vote" occurs when a bank, broker or other nominee holder has not received voting instructions with respect to a particular matter and the nominee holder does not have discretionary authority to vote on that matter. A nominee holder has discretionary authority under the rules of the New York Stock Exchange, or NYSE, to vote your shares on the ratification of the appointment of KPMG LLP as our independent registered public accounting firm, even if the nominee holder does not receive voting instructions from you, but will not have discretionary authority to vote on any of the other matters presented for consideration at the Annual Meeting.

*Election of Directors.* Under our by-laws, the eight director nominees receiving the highest number of affirmative votes out of the total number of votes represented by shares present (either in person or by proxy) and entitled to vote at the meeting will be elected as directors (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 Our Independent Registered Public Accounting Firm.* Under our by-laws, the affirmative vote of the holders of a majority of the votes present or represented at the Annual Meeting and entitled to be cast will be required for approval of the ratification of the appointment of KPMG LLP as our independent registered public accounting firm (Proposal 2). If you submit a proxy or attend the meeting but choose to abstain from voting on this proposal, you will be considered

Table of Contents

present at the meeting and entitled to vote on such proposal. As a result, an abstention will have the same effect as if you had voted against such proposal. Broker non-votes, however, will have no effect on the proposal because they will not be considered to have been entitled to vote on such proposal.

*Approval on an Advisory Basis of Our Executive Compensation.* Under our by-laws, the affirmative vote of the holders of a majority of the votes present or represented at the Annual Meeting and entitled to be cast will be required for approval on a non-binding advisory basis of our executive compensation (Proposal 3). If you submit a proxy or attend the meeting but choose to abstain from voting on this proposal, you will be considered present at the meeting and entitled to vote on such proposal. As a result, an abstention will have the same effect as if you had voted against such proposal. Broker non-votes, however, will have no effect on the proposal because they will not be considered to have been entitled to vote on such proposal.

**Solicitation of Proxies**

We will bear the expenses of preparing, printing and assembling the materials used in the solicitation of proxies. In addition to the solicitation of proxies by use of the mail or the Internet, we may also use the services of some of our officers and employees (who will receive no compensation for such services 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 we will reimburse them for their reasonable expenses.

**Other Business to be Considered**

Our management 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 properly 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.

**PROPOSAL 1  
ELECTION OF DIRECTORS**

Our Board has nominated each of the individuals named below for election as a director. If elected, each nominee will serve until our 2015 Annual Meeting and until such director's successor has 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 currently members of our Board and were elected by our stockholders at the 2013 Annual Meeting. Management does not contemplate that any of the nominees will be unable to serve, but in that event, proxies solicited hereby may be voted for a substitute nominee designated by our Board or our Board may choose to reduce the number of directors serving on the Board.

**Our Board of Directors recommends that stockholders vote FOR the election of each nominee as a director of Watts Water Technologies, Inc.**

Table of Contents**Information as to Nominees for Director**

Set forth below are the names of the nominees for our Board of Directors, their ages, principal occupations for at least the past five years, the years they originally became members of our Board of Directors and certain other information. The information provided below is current as of February 1, 2014 except for the ages of the nominees, which are current as of May 14, 2014, the date of our 2014 Annual Meeting.

<b>Name</b>	<b>Age</b>	<b>Present Principal Employment and Prior Business Experience</b>	<b>Director Since</b>
Robert L. Ayers	68	<p>Mr. Ayers was Senior Vice President of ITT Industries and President of ITT Industries' Fluid Technology from October 1999 until September 2005. Mr. Ayers continued to be employed by ITT Industries from September 2005 until his retirement in September 2006, during which time he focused on special projects for the company. ITT Industries' Fluid Technology manufactured a broad range of pumps, mixers, controls and treatment systems. Mr. Ayers joined ITT Industries in 1998 as President of ITT Industries' Industrial Pump Group. Mr. Ayers served as a member of the Board of Directors of T-3 Energy Services, Inc., a provider of oil field products and services, from August 2007 to January 2011.</p> <p><i>Skills and Qualifications.</i> Mr. Ayers' skills and qualifications to serve on our Board include his extensive international, channel management, operations and sales and marketing experience with manufacturing companies in the fluid control industry.</p>	2006
Bernard Baert	64	<p>Mr. Baert served as Senior Vice President and President, Europe and International of PolyOne Corporation from January 2010 until his retirement in April 2012. Mr. Baert served as Senior Vice President and General Manager, Color and Engineered Materials Europe and Asia for PolyOne Corporation from 2006 to December 2009 and as Vice President and General Manager, Color and Engineered Materials Europe and Asia from 2000 to 2006. From 1995 to September 2000, Mr. Baert was General Manager, Color Europe for M.A. Hanna Company, the predecessor to PolyOne Corporation. PolyOne Corporation is a worldwide provider of specialty polymer materials, services and solutions. Prior to joining M.A. Hanna, Mr. Baert was General Manager, Europe for Hexcel Corporation and spent 17 years with Owens Corning where he served as a plant manager and held various positions in the areas of cost control and production.</p> <p><i>Skills and Qualifications.</i> Mr. Baert's skills and qualifications to serve on our Board include his extensive general management and manufacturing experience, international experience, particularly in Europe, and his experience executing and integrating acquisitions in Europe, Asia and South America.</p>	2011

Table of Contents

Name	Age	Present Principal Employment and Prior Business Experience	Director Since
Kennett F. Burnes	71	<p>Mr. Burnes is the retired Chairman, President and Chief Executive Officer of Cabot Corporation, a global manufacturer of specialty chemicals and performance materials. He was Chairman of the Board of Directors from 2001 to March 2008, President from 1995 to January 2008 and Chief Executive Officer from 2001 to January 2008. Prior to joining Cabot Corporation in 1987, Mr. Burnes was a partner at the Boston-based law firm of Choate, Hall &amp; Stewart, where he specialized in corporate and business law for nearly 20 years. Mr. Burnes has been a member of the Board of Directors of State Street Corporation, a provider of financial services to institutional investors, since 2003. Mr. Burnes' community activities include being a member of the Dana Farber Cancer Institute's Board of Trustees, a member of the Board of Trustees of the New England Conservatory, Chairman of the Board of Trustees of the Schepens Eye Research Institute and a member of the Board of Trustees of the Epiphany School.</p> <p><i>Skills and Qualifications.</i> Mr. Burnes' skills and qualifications to serve on our Board include his experience as an operating executive and chief executive officer of an international manufacturing company and his nearly 20 years of experience as a corporate attorney representing public companies.</p>	2009
Richard J. Cathcart	69	<p>Mr. Cathcart was Vice Chairman and a member of the Board of Directors of Pentair, Inc. from February 2005 until his retirement in September 2007. Mr. Cathcart served as President and Chief Operating Officer of Pentair's Water Technologies Group from January 2001 until February 2005. Mr. Cathcart also served as Executive Vice President and President of Pentair's Water Technologies Group from February 1996 to January 2001 and as Executive Vice President, Corporate Development from March 1995 to February 1996. Pentair is a diversified manufacturing company. Pentair's Water Technologies Group provided products and systems used in the movement, storage, treatment and enjoyment of water. Mr. Cathcart is also a member of the Board of Directors of Fluidra S.A., an international manufacturer of accessories and products for swimming pools, irrigation, and water treatment and purification systems.</p> <p><i>Skills and Qualifications.</i> Mr. Cathcart's skills and qualifications to serve on our Board include his familiarity with our industry stemming from his service as an operating executive with an international manufacturing company in the fluid control industry, his strategic planning expertise and his extensive international experience as a business executive and as a board member of a public company based in Europe.</p>	2007

Table of Contents

Name	Age	Present Principal Employment and Prior Business Experience	Director Since
W. Craig Kissel	63	<p>Mr. Kissel previously was employed by Trane Inc. from 1980 until his retirement in September 2008. During his time at Trane, Mr. Kissel served as President of Trane Commercial Systems from 2004 to June 2008, President of WABCO Vehicle Control Systems from 1998 to 2003, President of Trane's North American Unitary Products Group from 1994 to 1997 and Vice President of Marketing of Trane's North American Unitary Products Group from 1992 to 1994 and held various other management positions at Trane from 1980 to 1991. Trane was a global manufacturer of commercial and residential heating, ventilation and air conditioning equipment, and WABCO was a leading worldwide supplier of commercial vehicle control systems. From 2001 to 2008, Mr. Kissel served as Chairman of Trane's Corporate Ethics and Integrity Council, which was responsible for developing the company's ethical business standards. Mr. Kissel also served in the U.S. Navy from 1973 to 1978. Mr. Kissel has served as a director of Chicago Bridge &amp; Iron Company since May 2009. Chicago Bridge &amp; Iron Company engineers and constructs some of the world's largest energy infrastructure projects.</p> <p><i>Skills and Qualifications.</i> Mr. Kissel's skills and qualifications to serve on our Board include his experience managing manufacturing businesses, his familiarity with commercial and residential construction markets, international experience, product management and distribution experience, and his experience developing ethical business standards at Trane.</p>	2011
John K. McGillicuddy	70	<p>Mr. McGillicuddy was employed by KPMG LLP, a public accounting firm, from June 1965 until his retirement in June 2000. In June 1975, Mr. McGillicuddy was elected into the Partnership of KPMG LLP, where he served as Audit Partner, SEC Reviewing Partner, and Partner-in-Charge of Professional Practice. Mr. McGillicuddy is a former Chairman of the Better Business Bureau of Massachusetts. Mr. McGillicuddy is a member of the Board of Directors of Brooks Automation, Inc., a worldwide provider of automation, vacuum and instrumentation solutions to the global semiconductor and related industries.</p> <p>Mr. McGillicuddy is also a member of the Board of Directors of Cabot Corporation, a manufacturer of specialty chemicals and performance materials.</p> <p><i>Skills and Qualifications.</i> Mr. McGillicuddy's skills and qualifications to serve on our Board include his 35 years of experience working in public accounting and his experience serving as a director of two other publicly traded international manufacturing companies.</p>	2003

Table of Contents

Name	Age	Present Principal Employment and Prior Business Experience	Director Since
Joseph T. Noonan	32	<p>Mr. Noonan has served as Chief Executive Officer of Homespun Design, Inc. since November 2013. Homespun Design is a start-up phase online retailer of American-made furniture and design founded by Mr. Noonan. Mr. Noonan previously worked as an independent digital strategy consultant from November 2012 to November 2013. Mr. Noonan was employed by Wayfair LLC from April 2008 to November 2012. During his time at Wayfair, Mr. Noonan served as Senior Director of Wayfair International from June 2011 to November 2012, Director of Category Management and Merchandising from February 2009 to June 2011 and Manager of Wayfair's Business-to-Business Division from April 2008 to February 2009. Wayfair is an online retailer of home furnishings, décor and home improvement products. Prior to joining Wayfair, Mr. Noonan worked as a venture capitalist at Polaris Partners and as an investment banker at Cowen &amp; Company.</p> <p><i>Skills and Qualifications.</i> Mr. Noonan's skills and qualifications to serve on our Board include his extensive background in e-commerce, acquisition and business integration experience, and his unique perspective as a member of the Horne family.</p>	2013
Merilee Raines	58	<p>Ms. Raines served as Chief Financial Officer of IDEXX Laboratories, Inc. from October 2003 until her retirement in May 2013. Ms. Raines also served as Executive Vice President of IDEXX from July 2012 until her retirement in May 2013. Prior to becoming Chief Financial Officer, Ms. Raines held several management positions with IDEXX, including Corporate Vice President of Finance, Vice President and Treasurer of Finance, Director of Finance, and Controller. IDEXX Laboratories develops, manufactures and distributes diagnostic and information technology based products and services for companion animal, livestock, poultry, water quality and food safety, and human point-of-care diagnostics. Ms. Raines is also a member of the Board of Directors of Aratana Therapeutics, Inc., a pet therapeutics company focused on the licensing or acquisition, development and commercialization of innovative biopharmaceutical products for cats, dogs and other companion animals.</p> <p><i>Skills and Qualifications.</i> Ms. Raines' skills and qualifications to serve on our Board include her extensive financial and accounting experience with a similarly sized international manufacturing company.</p>	2011

**Director Compensation**

Our non-employee directors are compensated for their service as directors. During 2013, our former Chief Executive Officer, David J. Coghlan, was the only member of our Board of Directors who was an employee of Watts Water, and he did not receive any additional compensation for his service as a director. None of the current members of our Board of Directors is an employee of Watts Water. Our current compensation arrangements for non-employee directors were set in 2012 based on a comprehensive competitive analysis of non-employee director compensation performed for the

Table of Contents

Compensation Committee by Pearl Meyer & Partners. Set forth below is a summary of the annual compensation arrangements for our non-employee directors.

Annual cash retainer:	\$ 60,000
Additional annual retainer for the Chairman of the Board of Directors:	\$ 40,000
Additional annual retainer for the Chairman of the Audit Committee:	\$ 17,500
Additional annual retainer for the Chairman of the Compensation Committee:	\$ 12,500
Additional annual retainer for the Chairman of the Nominating and Corporate Governance Committee:	\$ 5,000
Fair market value of annual grant of class A common stock:	\$ 90,000

We also reimburse non-employee directors for reasonable out-of-pocket expenses incurred in connection with attending Board and committee meetings and for fees and reasonable out-of-pocket expenses for their attendance at director education seminars and programs they attend at the request of the Board. Non-employee directors do not receive any additional compensation for attendance at Board or committee meetings.

Mr. McGillicuddy served as both the Chairman of the Board of Directors and the Chairman of the Audit Committee during 2013, but he elected to receive only the additional annual retainer for his service as Chairman of the Board of Directors and to forego the additional annual retainer for his service as Chairman of the Audit Committee.

Our Board typically approves grants of stock awards to non-employee directors at its regularly scheduled third quarter meeting. Such awards are not subject to vesting or any other conditions or restrictions. We have adopted a practice that annual stock awards for non-employee directors are granted on the third business day following the release of our second quarter earnings to the public. The purpose for setting this grant date is to ensure that we are using a date when the public markets have a maximum amount of information about our financial performance and have had a sufficient amount of time to understand and react to such information. The Board granted 1,643 shares of class A common stock to each of Messrs. Ayers, Baert, Burnes, Cathcart, Kissel, McGillicuddy and Noonan and Ms. Raines on August 2, 2013.

We have instituted a program under which our non-employee directors may defer receipt of their annual grant of shares of class A common stock. If any dividends are paid on our class A common stock during the period in which the stock is deferred, the non-employee director is credited with cash in the amount he or she would have received if the shares had been issued and held by the director at the time the dividend was paid. The accrued dividends will be distributed, without interest, in cash at the time that the stock is issued to the director at the end of the deferral period chosen by such director. Messrs. Ayers, Baert, Burnes, Cathcart and McGillicuddy and Ms. Raines elected to defer receipt of their 2013 stock awards.

Our non-employee directors are subject to stock ownership guidelines. These guidelines stipulate that each non-employee director should own shares of our class A common stock with a market value of at least \$180,000, which is equivalent to a multiple of three times our current annual cash retainer. It is expected that this ownership level will generally be achieved within a three-year period beginning when a director is first elected to the Board. For purposes of determining a director's compliance with these ownership guidelines, any deferred shares are considered held by the director. The Compensation Committee reviews each non-employee director's compliance with these guidelines on an annual basis. Compliance is typically measured based on stock ownership as of the last day of the second quarter. At the end of the second quarter of 2013, all of our non-employee directors who had been members of our Board for three or more years were in compliance with our stock ownership guidelines.

Table of Contents

The following table contains information on compensation for the non-employee members of our Board of Directors during the fiscal year ended December 31, 2013.

**2013 DIRECTOR COMPENSATION**

Name	Fees Earned or Paid in Cash(\$)	Stock Awards\$(1)	Option Awards\$(2)	All Other Compensation(\$)	Total(\$)
Robert L. Ayers	60,000	89,971			149,971
Bernard Baert	60,000	89,971			149,971
Kennett F. Burnes	65,000	89,971			154,971
Richard J. Cathcart	72,500	89,971			162,471
W. Craig Kissel	60,000	89,971			149,971
John K. McGillicuddy	100,000	89,971			189,971
Joseph T. Noonan	30,000	89,971			119,971
Merilee Raines	60,000	89,971			149,971

- (1) The amounts in this column reflect the grant date fair value of the stock awards granted during 2013 computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 12 to our audited consolidated financial statements for the year ended December 31, 2013 included in our Annual Report on Form 10-K filed with the SEC on February 27, 2014. The amounts reflected in this column for Messrs. Ayers, Baert, Burnes, Cathcart and McGillicuddy and Ms. Raines were deferred under our non-employee director stock deferral program described above.
- (2) There were no stock options granted to our non-employee directors during 2013, and none of our non-employee directors hold any stock options.



Table of Contents

**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 us to achieve business success and to create value for our stockholders. Our Board is committed to high governance standards and continually works to improve them. We periodically review our corporate governance policies and practices and compare them to those suggested by various authorities on corporate governance and employed by other public companies. We also review guidance and interpretations provided from time to time by the SEC and the NYSE and consider changes to our corporate governance policies and practices in light of such guidance and interpretations.

**Role of Our Board of Directors**

Our Board monitors overall corporate performance and the integrity of our financial controls and legal compliance procedures. It appoints executive officers and oversees succession planning and our executive officers' performance and compensation. Our 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 our Board keep informed about our business through discussions with our Chief Executive Officer and other members of our 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 our business with the Board, and we introduce our executives to the Board so that the Board can become familiar with our key employees. In addition, we hold periodic strategy sessions between members of senior management and the Board, during which members of the senior management team provide in-depth reviews of various aspects of our business operations and discuss our strategy with respect to such operations.

In 2013, our Board met nine times and each incumbent director who will be standing for reelection at the 2014 Annual Meeting attended at least 75% of the total number of meetings of the Board and all committees of the Board on which the director served.

*The Role of our Board in Risk Oversight.* The Board's role in our risk oversight process includes receiving regular reports from members of senior management on areas of material risk to Watts Water, including operational, financial, legal and regulatory, strategic and reputational risks. The full Board (or the appropriate committee in the case of risks that are under the purview of a particular committee) receives these reports from senior management to enable it to understand our risk identification, risk management and risk mitigation processes and strategies. When a committee receives a report on a particular risk, the chairman of the relevant committee reports on the committee's discussion of such risk to the full Board during the next full Board meeting. This enables the Board and its committees to coordinate the risk oversight role. As part of its charter, the Audit Committee discusses the guidelines and policies that govern the process by which our exposure to risk is assessed and managed by management.

*Board Leadership Structure.* We separate the roles of Chief Executive Officer and Chairman of the Board in recognition of the differences between the two roles. Our Chief Executive Officer is responsible for setting the strategic direction for Watts Water, providing day-to-day leadership and managing our performance. The Chairman of the Board provides guidance to our Chief Executive Officer, works with our Chief Executive Officer to set the agenda for Board meetings and presides over meetings of the full Board, including executive sessions of the non-management and independent directors.

Table of Contents

**Performance of Our Board and Committees**

Our Board considers it important to continually evaluate and improve its effectiveness and that of its committees. Our Board and each of its standing committees conduct annual self-evaluations. The Nominating and Corporate Governance Committee oversees our Board's self-evaluation process. The results of each committee's annual self-evaluation are reported to the full Board.

**Business Ethics and Compliance**

We have adopted a Code of Business Conduct applicable to all officers, employees and Board members worldwide. The Code of Business Conduct is posted in the "Investor Relations" section of our website at <http://www.wattswater.com>. Any amendments to, or waivers of, the Code of Business Conduct which apply to our Chief Executive Officer, Chief Financial Officer, Corporate Controller or any person performing similar functions will be disclosed on our website within four business days of the date of such amendment or waiver.

**Director Independence**

As of February 1, 2014, members of the Horne family beneficially owned 6,439,290 shares of our class B common stock that are subject to The George B. Horne Voting Trust Agreement 1997. These shares represent 68.8% of our total outstanding voting power. As trustee of The George B. Horne Voting Trust Agreement 1997, Timothy P. Horne has sole power to vote all of the shares subject to the trust and effectively exercises control over voting power for the election of our directors. As a result, we are a "controlled company" under NYSE rules. As a controlled company, under NYSE rules, we are not required to have a majority of independent directors or compensation or governance committees consisting solely of independent directors.

We strive to achieve the highest standards of corporate governance, including with respect to director independence, despite our status as a controlled company. We have chosen not to take advantage of the controlled company exemption under NYSE rules and are committed to having a Board with at least a majority of independent directors. Under our Corporate Governance Guidelines, we require that at least a majority of the members of our Board meet the independence requirements of the NYSE. Under NYSE rules, a director qualifies as "independent" if the Board affirmatively determines that the director has no material relationship with the company of which he or she serves as a director. The Board is required to consider broadly all relevant facts and circumstances in making an independence determination. Material relationships can include commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships. The Nominating and Corporate Governance Committee annually evaluates the independence of each non-employee director nominee and makes recommendations to the Board. In making its recommendations, the Nominating and Corporate Governance Committee applies NYSE rules to determine a director's independence and evaluates any other business, legal, accounting or family relationships between all non-employee director nominees and Watts Water.

In February 2014, the Nominating and Corporate Governance Committee and our Board reviewed all relationships between Watts Water and each non-employee director nominee to determine compliance with the NYSE independence rules and our Corporate Governance Guidelines, and to evaluate whether there are any other facts or circumstances that might impair the director's independence. Based on the results of this review and the recommendations of the Nominating and Corporate Governance Committee, the Board determined that seven of our eight director nominees (Messrs. Ayers, Baert, Burnes, Cathcart, Kissel and McGillicuddy and Ms. Raines) are independent under NYSE rules and that the composition of our Board therefore complies with our Corporate Governance Guidelines. With respect to Mr. Noonan, the Board determined that he is a non-

Table of Contents

management director under NYSE rules, but not independent under NYSE rules because he is the son-in-law of Timothy P. Horne, our controlling stockholder.

**Horne Family Board Participation**

Timothy P. Horne served as a member of our Board of Directors until our 2010 Annual Meeting, when he retired from the Board in compliance with the age limitation for Board members contained in our Corporate Governance Guidelines. Since his retirement from the Board, Mr. Horne has served as a director emeritus and has selectively participated in certain Board discussions at the invitation of our Board. In May 2013, Mr. Horne's son-in-law, Joseph T. Noonan, was elected as a member of our Board. We believe that it is strategically important for a Horne family member to be actively engaged in the oversight of Watts Water, including by serving on our Board of Directors. Through Mr. Noonan's participation on the Board, the Horne family's long-term perspective is considered in all Board decisions. Having a Horne family member on the Board serves as an effective link between the Board and the controlling Horne family stockholders. Board service also provides the controlling Horne family stockholders with an active means by which to oversee their investment.

**Corporate Governance Guidelines**

Our Board has adopted Corporate Governance Guidelines that govern the structure and functioning of the Board and set out the Board's policies on governance issues. The Corporate Governance Guidelines are posted in the "Investor Relations" section of our website at <http://www.wattswater.com>.

**Executive Sessions**

In accordance with our Corporate Governance Guidelines, our non-management directors meet in executive session at least quarterly. The Chairman of the Board or, in his absence, a director chosen by the non-management directors in attendance, presides at such meetings.

**Communications with the Board**

Our Board welcomes the submission of any comments or concerns from stockholders and any interested parties. Communications should be in writing and addressed to our corporate Secretary at our principal executive offices and marked to the attention of the Board or any of its committees, individual directors or non-management or independent directors as a group. All correspondence will be forwarded to the intended recipient(s).

**Annual Meeting Attendance**

Directors are encouraged to attend our annual meetings of stockholders. Seven of our directors attended the 2013 Annual Meeting either in person or by telephone conference call.

**Committees of the Board**

Our Board currently has three standing committees: the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee. Each committee is composed solely of directors determined by the Board to be independent under the applicable NYSE and SEC rules. The Board has adopted a written charter for each standing committee. 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 <http://www.wattswater.com>. The Board also appoints from time to time ad hoc committees to address specific matters.

Table of Contents

*Audit Committee.* The Audit Committee currently consists of four members: Ms. Raines (Chairperson) and Messrs. Baert, Burnes and McGillicuddy. Ms. Raines replaced Mr. McGillicuddy as Chairperson of the Audit Committee in February 2014. The Board has made a determination that each of the members of the Audit Committee satisfies the independence requirements of the NYSE as well as Rule 10A-3 under the Securities Exchange Act of 1934. In addition, the Board has determined that Mr. McGillicuddy and Ms. Raines are "audit committee financial experts," as defined by SEC rules. During 2013, the Audit Committee held eight meetings. Our Audit Committee assists the Board in, among other things:

- its oversight of the integrity of our financial statements;
- our compliance with legal and regulatory requirements;
- the qualifications, independence and performance of our independent registered public accounting firm; and
- the performance of our internal audit function.

The Audit Committee's responsibilities also include:

- the appointment and evaluation of our independent registered public accounting firm;
- the oversight of our systems of internal accounting and financial controls;
- the review of management's assessment and management of risk;
- the review of the annual independent audit of our financial statements;
- the review of our Code of Business Conduct;
- the establishment of "whistle-blowing" procedures; and
- the oversight of other compliance matters.

*Compensation Committee.* The Compensation Committee currently consists of three members: Messrs. Cathcart (Chairman), Ayers and Kissel. During 2013, the Compensation Committee held seven meetings. Our Compensation Committee is responsible for shaping the principles, strategies and compensation philosophy that guide the design and implementation of our employee compensation programs and arrangements. Its primary responsibilities are to:

- evaluate the performance of our Chief Executive Officer and, either as a committee or together with the independent members of our Board of Directors, determine the compensation of our Chief Executive Officer;
- review and approve the compensation of our other executive officers;

Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

approve annual performance bonus targets and objectives and the annual bonus amounts paid to our executive officers under our Executive Incentive Bonus Plan;

approve all stock awards granted under our 2004 Stock Incentive Plan and the participants in our Management Stock Purchase Plan;

review and submit recommendations to our Board of Directors on compensation for non-employee directors;

review and discuss with management the Compensation Discussion and Analysis to be included in the proxy statement; and

monitor our policies and practices for the development and succession of senior management.

Table of Contents

The Compensation Committee holds one regularly scheduled meeting each quarter and schedules additional meetings as often as necessary in order to perform its duties and responsibilities. The Chairman of the Compensation Committee works with management to establish the agenda for each meeting. Compensation Committee members receive and review materials in advance of each meeting. These materials include information that management believes will be helpful to the Compensation Committee as well as materials that members of the Compensation Committee request. The Compensation Committee may establish and delegate authority to one or more subcommittees consisting of one or more of its members when the Compensation Committee deems it appropriate to do so in order to carry out its responsibilities.

The Compensation Committee is authorized under its charter to retain consultants to assist it in the evaluation of executive compensation and to approve the fees and other retention terms for its consultants. The Compensation Committee has retained Pearl Meyer & Partners as a compensation consultant to review our compensation programs and provide advice to the Compensation Committee with respect to executive compensation. Pearl Meyer does not provide any other services to Watts Water. The Compensation Committee requested and received responses to an independence questionnaire and an independence letter from Pearl Meyer for 2013, and based on those responses the Compensation Committee does not believe that Pearl Meyer has any conflict of interest or potential conflict of interest in providing compensation advice to the Compensation Committee. As appropriate, the Compensation Committee also looks to our human resources department to support the Compensation Committee in its work and to provide necessary information.

The Compensation Committee has conducted a review and assessment of risk as it relates to our compensation policies and practices and determined that our compensation policies and practices do not encourage excessive or inappropriate risk taking and are not reasonably likely to cause a material adverse effect on Watts Water.

*Nominating and Corporate Governance Committee.* Our Nominating and Corporate Governance Committee currently consists of seven members: Messrs. Burnes (Chairman), Ayers, Baert, Cathcart, Kissel and McGillicuddy and Ms. Raines. During 2013, the Nominating and Corporate Governance Committee held four meetings. 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 periodically reviewing our Corporate Governance Guidelines and recommending any changes thereto, overseeing the evaluation of the Board, and approving related person transactions.

**Director Candidates**

The Nominating and Corporate Governance Committee will consider for nomination to the Board candidates recommended by stockholders. Recommendations should be sent to our corporate Secretary, Kenneth Lepage, at our principal executive offices and marked to the attention of the Nominating and Corporate Governance Committee. In order to be considered for inclusion as a nominee for director in our proxy statement for our 2015 Annual Meeting, a recommendation must be received no later than December 1, 2014. 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 <http://www.wattswater.com>, or on written request to our corporate Secretary at our principal executive offices.

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

Table of Contents

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 our minimum qualifications and possesses specific qualities and skills for directors and whether requesting additional information or an initial screening interview is appropriate.

Stockholders also have the right under our bylaws to directly nominate director candidates, without any action or recommendation on the part of the Nominating and Corporate Governance Committee or the Board, by following the procedures described later in this proxy statement under "Stockholder Proposals".

*Criteria and Diversity.* We believe that our Board should be composed of directors who, as a group, have the experience and skills that are collectively required to make informed Board decisions and provide effective Board oversight. The composite skills of the Board members and the ability and willingness of individual Board members to complement each other and to rely on each other's knowledge and expertise should produce informed Board members who are not afraid to disagree and who can intelligently assess management's performance and evaluate the Company's strategic direction. In considering whether to recommend any candidate for nomination to the Board, including candidates recommended by stockholders, the Nominating and Corporate Governance Committee must be satisfied that the recommended nominee has, at a minimum:

the highest personal and professional integrity;

sound business and strategic judgment;

the ability to devote sufficient time and energy to the Board; and

the ability and will to challenge management while refraining from assuming management's role.

The Nominating and Corporate Governance Committee also considers experience in our industry or markets, international business experience, experience serving on the boards of public companies, experience acquiring companies and diversity of background and experience to be favorable characteristics in evaluating recommended nominees. In addition, the nominee must not serve on more than two public company boards in addition to our Board.

Our Corporate Governance Guidelines and our Nominating and Corporate Governance Committee charter specify that the Nominating and Corporate Governance Committee and the Board understand the importance of diversity among members of the Board to our long-term success. Diversity encompasses a wide range of individual characteristics and experiences, including such things as gender, age, race, sexual orientation, national origin, religion, political affiliation, marital status, disability, and geographic background. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria, and no particular criterion is necessarily applicable to all prospective nominees. The Nominating and Corporate Governance Committee believes that the backgrounds and qualifications of the members of the Board, considered as a group, should provide an appropriate mix of experience, knowledge and abilities that will allow the Board to fulfill its responsibilities.

**Compensation Committee Interlocks and Insider Participation**

During 2013, Messrs. Ayers, Cathcart and Kissel served as members of the Compensation Committee of our Board of Directors. None of the directors who served as members of the Compensation Committee during 2013 is or has been an executive officer or employee of Watts Water.

None of our executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee.

Table of Contents

**Restrictions on Hedging and Pledging Transactions**

We prohibit all hedging transactions or short sales involving Company securities by all designated insiders under our Insider Trading Procedures, including all directors and executive officers. We also prohibit such designated insiders from holding any Company securities in margin accounts. No designated insider may pledge any Company securities as collateral for a loan unless the pledge has been approved in advance by the Compensation Committee.

**Certain Relationships and Related Transactions**

*Transactions with Related Persons*

As more fully described in the "Principal Stockholders" section of this proxy statement, Timothy P. Horne controls approximately 68.8% of the voting power of our stock. Mr. Horne has served as a director emeritus of the Company since his retirement from our Board of Directors in May 2010. Pursuant to the Company's by-laws, Mr. Horne was reappointed as a director emeritus by our Board of Directors in February 2014 to serve a one-year term beginning on the date of our 2014 Annual Meeting and ending on the date of our 2015 Annual Meeting. As a director emeritus, Mr. Horne may be invited by our Board to attend meetings of the Board of Directors or any committee of the Board of Directors but he does not have the right to vote and he is not considered to be a member of the Board of Directors for any purpose (including quorum).

In September 1996, we entered into a Supplemental Compensation Agreement with Mr. Horne, who was at that time our Chief Executive Officer and President, which provided that Mr. Horne would provide consulting services to us and receive certain compensation following his retirement as an employee of the Company. Mr. Horne retired as an employee on December 31, 2002. Under the agreement, as amended, Mr. Horne has agreed to provide consulting services to us for 300 to 500 hours per year so long as he is physically able. We agreed to pay Mr. Horne the greater of (i) one-half of the average of Mr. Horne's annual base salary as an employee of Watts Water during the three years immediately prior to his retirement or (ii) \$400,000 for each calendar year following Mr. Horne's retirement until the date of his death, subject to certain cost-of-living increases each year. We paid Mr. Horne \$577,454 for his consulting services in 2013. In the event of a change of control of the Company, Mr. Horne has the right to elect to receive a lump-sum payment instead of continuing to receive annual consulting fee payments. If Mr. Horne elects to receive the lump-sum payment, his obligation to provide consulting services to us terminates. The lump-sum payment would equal the present value of \$23,650 monthly for life and would be determined with reference to discount rates and mortality tables applicable under our pension plan and an adjustment for inflation. If Mr. Horne elects to receive a lump-sum payment following a change of control of the Company, we also agreed to make a tax gross-up payment to him to cover all federal, state and local taxes payable by him with respect to the lump-sum payment. We also agreed to provide lifetime benefits to Mr. Horne, including use of secretarial services, use of an office at our corporate headquarters, retiree health insurance, reimbursement of tax and financial planning expenses, automobile maintenance expenses, one club membership, an indemnification agreement and payment of travel expenses when visiting our facilities in the course of providing consulting services to us. Our obligations to make the above-described payments to Mr. Horne and to provide the above-described benefits will not be affected or limited by Mr. Horne's physical inability to provide consulting services to us if such disability should occur.

*Policies and Procedures for Related Person Transactions*

Our Board has adopted a Related Person Transaction Policy, which requires the review of any transaction, arrangement or relationship in which Watts Water is a participant, the amount involved exceeds \$120,000, and one of our executive officers, directors, director nominees or 5% stockholders (or their immediate family members), each of whom we refer to as a "related person," has a direct or indirect material interest.



Table of Contents

If a related person proposes to enter into such a transaction, arrangement or relationship, which we refer to as a "related person transaction," the related person must report the proposed related person transaction to our General Counsel. The policy calls for the proposed related person transaction to be reviewed and, if deemed appropriate, approved by the Board's Nominating and Corporate Governance Committee. Whenever practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the committee will review, and, in its discretion, may ratify the related person transaction. The policy also permits the chairman of the committee to review and, if deemed appropriate, approve proposed related person transactions that arise between committee meetings, subject to ratification by the committee at its next meeting. Any related person transactions that are ongoing in nature will be reviewed annually.

A related person transaction reviewed under the policy will be considered approved or ratified if it is authorized by the Nominating and Corporate Governance Committee after full disclosure of the related person's interest in the transaction. As appropriate for the circumstances, the committee will review and consider:

the related person's interest in the related person transaction, regardless of the amount of any profit or loss;

the approximate dollar value involved in the related person transaction;

whether the transaction was undertaken in the ordinary course of our business;

whether the terms of the transaction are no less favorable to us than terms that could have been reached with an unrelated third party;

the purpose of, and the potential benefits to us of, the transaction; and

any other material information regarding the related person transaction or the related person.

The Nominating and Corporate Governance Committee may approve or ratify the transaction only if it determines that, under all of the circumstances, the transaction is in, or is not inconsistent with, the best interests of Watts Water. The Nominating and Corporate Governance Committee may impose any conditions on the related person transaction that it deems appropriate.

In addition to the transactions that are excluded by the instructions to the SEC's related person transaction disclosure rule, the Board has determined that the following transactions do not create a material direct or indirect interest on behalf of related persons and, therefore, are not related person transactions for purposes of this policy:

interests arising solely from the related person's position as an executive officer of another entity (whether or not the person is also a director of such entity), that is a participant in the transaction, where (a) the related person and all other related persons own in the aggregate less than a 10% equity interest in such entity, (b) the related person and his or her immediate family members are not involved in the negotiation of the terms of the transaction and do not receive any special benefits as a result of the transaction, (c) the amount involved in the transaction equals less than the greater of \$1 million dollars or 2% of the annual consolidated gross revenues of the other entity that is a party to the transaction, and (d) the amount involved in the transaction equals less than 2% of the annual consolidated gross revenues of Watts Water; and

a transaction that is specifically contemplated by provisions of our charter or by-laws.

The policy provides that transactions involving compensation of executive officers shall be reviewed and approved by the Compensation Committee in the manner specified in its charter.

Table of Contents**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, 2014, by:

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

each of our directors and director nominees;

each of the executive officers named in the Summary Compensation Table; and

all of our current 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, 2014 through the exercise of stock options, the settlement 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 determining the equity and voting percentages for each stockholder, any shares that such stockholder has the right to acquire within 60 days after February 1, 2014 are deemed to be outstanding, but are not deemed to be outstanding for the purpose of determining the percentages for any other stockholder.

Name of Beneficial Owner(1)	Number	Shares Beneficially Owned(2)		Percent of Voting Power
		Percent of Class A Common Stock	Percent of Class B Common Stock	
<b>5% Stockholders</b>				
Timothy P. Horne	6,470,510(3)(4)	18.4	99.2	68.8
Walter J. Flowers	1,854,710(5)	6.1	28.6	19.8
Daniel W. Horne	1,666,970(6)	5.5	25.7	17.8
Deborah Horne	1,666,970(6)	5.5	25.7	17.8
Peter W. Horne	1,580,770(7)	5.2	23.8	16.5
Gabelli Funds, LLC, et al.	2,497,990(8)	8.7	0	2.7
BlackRock, Inc.	2,545,709(9)	8.9	0	2.7
The Vanguard Group	1,662,017(10)	5.8	0	1.8
Dimensional Fund Advisors LP	1,618,436(11)	5.6	0	1.7
Norges Bank (The Central Bank of Norway)	1,499,712(12)	5.2	0	1.6
<b>Directors and Executive Officers</b>				
Robert L. Ayers	18,214(13)	*	0	*
Bernard Baert	6,113(14)	*	0	*
Kennett F. Burnes	14,360(15)	*	0	*
Richard J. Cathcart	12,816(16)	*	0	*
David J. Coghlan	140,173(17)	*	0	*
Dean P. Freeman	20,190(18)	*	0	*
W. Craig Kissel	5,308	*	0	*
Kenneth R. Lepage	81,473(19)	*	0	*
John K. McGillicuddy	15,073(20)	*	0	*
Elie Melhem	10,142(21)	*	0	*
Joseph T. Noonan	1,643(22)	*	0	*
Merilee Raines	6,513(23)	*	0	*
Mario Sanchez	12,702(24)	*	0	*
All current executive officers and directors (13 persons)	210,618(25)	*	0	*

\*

Represents less than 1%

## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

### Table of Contents

- (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 (i) the address of Gabelli Funds, LLC et al. is One Corporate Center, Rye, New York 10580, (ii) the address of BlackRock, Inc. is 40 East 52<sup>nd</sup> Street, New York, New York 10022, (iii) the address of The Vanguard Group is 100 Vanguard Blvd., Malvern, Pennsylvania 19355, (iv) the address of Dimensional Fund Advisors LP is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746, and (v) the address of Norges Bank (The Central Bank of Norway) is Bankplassen 2, PO Box 1179 Sentrum, NO 0107 Oslo, Norway.
- (2) The number of shares and percentages were determined as of February 1, 2014 in accordance with Rule 13d-3 of the Securities Exchange Act of 1934. At that date, a total of 35,223,500 shares were outstanding, of which 28,734,210 were shares of class A common stock and 6,489,290 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 at any time. 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) Consists of (i) 1,400,000 shares of class B common stock and 31,220 shares of class A common stock held by Timothy P. Horne (for purposes of this footnote 3, "Mr. Horne"), (ii) 1,666,970 shares of class B common stock held by a revocable trust for the benefit of Daniel W. Horne, Mr. Horne's brother, for which Walter J. Flowers serves as sole trustee, (iii) 1,666,970 shares of class B 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, (iv) 1,495,010 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) 22,600 shares of class B common stock held for the benefit of Tiffany Horne Noonan, Mr. Horne's daughter, under an irrevocable trust for which Mr. Horne serves as trustee, (vi) 132,740 shares of class B common stock held by a revocable trust for the benefit of Tiffany Horne Noonan, for which Walter J. Flowers serves as sole trustee, (vii) 35,000 shares of class B common stock held for the benefit of Tara V. Horne, Mr. Horne's daughter, under an irrevocable trust for which Walter J. Flowers and Mr. Horne serve as co-trustees, and (viii) 20,000 shares of class B common stock held by a trust for the benefit of Tiffany Horne Noonan, for which Walter J. Flowers and Mr. Horne serve as co-trustees. All of the shares of class B common stock noted in clauses (i) through (viii) (6,439,290 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 4 for a description of the 1997 Voting Trust). Mr. Horne has sole power to vote or direct the vote of all of such shares, sole power to dispose or to direct the disposition of 1,453,820 of the shares, and shared power to dispose or to direct the disposition of 5,016,690 of the shares.
- (4) 6,439,290 shares of class B common stock in the aggregate (see footnote 3) 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 and Walter J. Flowers (each, a "Successor Trustee" and together, 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 Successor Trustee, 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

Table of Contents

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 restrictions on transfer applicable to the stock that they represent. Timothy P. Horne holds 21.7% of the total beneficial interest in the 1997 Voting Trust (the "Beneficial Interest") individually, 25.9% of the Beneficial Interest as trustee of the 1997 Voting Trust to which shares held in a revocable trust for the benefit of Daniel W. Horne are subject, 25.9% of the Beneficial Interest as trustee of a revocable trust for the benefit of Deborah Horne, 23.2% of the Beneficial Interest as trustee of the 1997 Voting Trust to which shares held in a revocable trust for the benefit of Peter W. Horne are subject, 2.1% of the Beneficial Interest as trustee of an irrevocable trust for the benefit of Tiffany Horne Noonan, 0.5% of the Beneficial Interest as co-trustee of a trust for the benefit of Tara V. Horne, and 0.3% of the Beneficial Interest as co-trustee of a trust for the benefit of Tiffany Horne Noonan (representing an aggregate of 100% of the Beneficial Interest).

- (5) Consists of (i) 1,666,970 shares of class B common stock held in a revocable trust for the benefit of Daniel W. Horne for which Mr. Flowers serves as the sole trustee, (ii) 132,740 shares of Class B Common Stock held in a revocable trust for the benefit of Tiffany Horne Noonan for which Mr. Flowers serves as the sole trustee, (iii) 35,000 shares of class B common stock held in a trust for the benefit of Tara V. Horne for which Mr. Flowers and Timothy P. Horne serve as co-trustees, and (iv) 20,000 shares of class B common stock held in a trust for the benefit of Tiffany Horne Noonan for which Mr. Flowers and Timothy P. Horne serve as co-trustees. All of the shares of class B common stock noted in clauses (i) through (iv) (1,854,710 in the aggregate) are subject to the 1997 Voting Trust for which Timothy P. Horne serves as sole trustee (see footnote 4 for a description of the 1997 Voting Trust). Mr. Flowers has no power to vote or direct the vote of the shares and has shared power to dispose or direct the disposition of all of the shares. Mr. Flowers disclaims beneficial ownership of all such shares.
- (6) All of the shares are class B common stock and are held in revocable trusts. All of the shares are subject to the 1997 Voting Trust (see footnote 4 for a description of the 1997 Voting Trust). The holders have no power to vote or direct the vote of the shares and have shared power to dispose or direct the disposition of the shares.
- (7) Consists of 35,760 shares of class A common stock and 1,545,010 shares of class B common stock, which are held in a revocable trust. 1,495,010 of the shares of class B common stock are subject to the 1997 Voting Trust (see footnote 4 for a description of the 1997 Voting Trust). Peter W. Horne has sole power to vote or direct the vote of and sole power to dispose or direct the disposition of the 85,760 shares that are not subject to the 1997 Voting Trust and shared power to dispose or direct the disposition of the 1,495,010 shares that are subject to the 1997 Voting Trust.
- (8) The amount shown and the following information are based solely on a Schedule 13D/A filed with the SEC on March 24, 2014 by Gabelli Funds, LLC, GAMCO Asset Management Inc. and Gabelli Securities, Inc. (collectively, for purposes of this footnote 8, the "Funds") reporting their aggregate holdings of shares of class A common stock. Mario J. Gabelli directly and indirectly controls the entities filing the Schedule 13D/A, which entities are primarily investment advisors to various institutional and individual clients, including registered investment companies and pension plans, and as general partner of various private investment partnerships. Certain of these entities may also make investments for their own accounts. Gabelli Funds, LLC has sole power to vote or direct the vote and sole power to dispose or to direct the disposition of 684,200 of the shares. GAMCO Asset

## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

### Table of Contents

Management Inc. has sole power to vote or direct the vote of 1,716,840 of the shares and sole power to dispose or to direct the disposition of 1,812,540 of the shares. Gabelli Securities, Inc. has sole power to vote or direct the vote and sole power to dispose or to direct the disposition of 1,250 of the shares. Mario Gabelli is deemed to have beneficial ownership of the shares owned beneficially by each of the entities filing the Schedule 13D/A.

- (9) The amount shown and the following information are based solely on a Schedule 13G/A filed with the SEC on January 31, 2014. BlackRock, Inc. has sole voting power with respect to 2,454,171 of the shares and sole dispositive power with respect to all of the shares.
- (10) The amount shown and the following information are based solely on a Schedule 13G/A filed with the SEC on February 12, 2014. The Vanguard Group has sole voting power with respect to 42,685 of the shares, sole dispositive power with respect to 1,621,632 of the shares and shared dispositive power with respect to 40,385 of the shares.
- (11) The amount shown and the following information are based solely on a Schedule 13G/A filed with the SEC on February 10, 2014. The Schedule 13G/A states that Dimensional Fund Advisors LP furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (collectively, for purposes of this footnote 11, the "Funds"). In its role as investment advisor or manager, neither Dimensional Fund Advisors LP nor its subsidiaries possess voting and/or investment power over the reported shares that are owned by the Funds, and may be deemed to be the beneficial owner of the reported shares held by the Funds. However, all of the reported shares are owned by the Funds. Dimensional Fund Advisors LP disclaims beneficial ownership of such shares. Dimensional Fund Advisors LP has sole power to vote or direct the vote of 1,578,111 of the shares and sole power to dispose or direct the disposition of 1,618,436 of the shares.
- (12) The amount shown and the following information are based solely on a Schedule 13G filed with the SEC on February 5, 2014. Norges Bank (The Central Bank of Norway) has sole voting power with respect to all of the shares, sole dispositive power with respect to 1,339,712 of the shares and shared dispositive power with respect to 160,000 of the shares.
- (13) Consists of 12,101 shares of class A common stock held by Mr. Ayers and 6,113 shares of class A common stock the receipt of which Mr. Ayers has deferred under our non-employee director stock deferral program.
- (14) Consists of 2,065 shares of class A common stock held by Mr. Baert and 4,048 shares of class A common stock the receipt of which Mr. Baert has deferred under our non-employee director stock deferral program.
- (15) Consists of 8,247 shares of class A common stock held by Mr. Burnes and 6,113 shares of class A common stock the receipt of which Mr. Burnes has deferred under our non-employee director stock deferral program.
- (16) Consists of 6,703 shares of class A common stock held by Mr. Cathcart and 6,113 shares of class A common stock the receipt of which Mr. Cathcart has deferred under our non-employee director stock deferral program.
- (17) Consists of 35,173 shares of class A common stock held by Mr. Coghlan and 105,000 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2014.
- (18) Consists of 1,796 shares of class A common stock held by Mr. Freeman, 6,000 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2014, and 12,394 shares of class A common stock issued to Mr. Freeman as restricted stock awards under the Company's 2004 Stock Incentive Plan, which are subject to certain restrictions with respect to the transfer and disposition of such shares.
- (19) Consists of 19,708 shares of class A common stock held by Mr. Lepage, 44,000 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2014, 4,192 shares of class A common stock issuable upon settlement of

restricted stock units within 60 days after February 1, 2014, and 13,573 shares of class A common stock issued as restricted stock awards under

Table of Contents

the Company's 2004 Stock Incentive Plan, which are subject to certain restrictions with respect to the transfer and disposition of such shares.

- (20) Consists of 8,960 shares of class A common stock held by Mr. McGillicuddy and 6,113 shares of class A common stock the receipt of which Mr. McGillicuddy has deferred under our non-employee director stock deferral program.
- (21) Consists of 22 shares of class A common stock held by Mr. Melhem and 10,120 shares of class A common stock issued as restricted stock awards under the Company's 2004 Stock Incentive Plan, which are subject to certain restrictions with respect to the transfer and disposition of such shares.
- (22) Consists of shares of class A common stock held by Mr. Noonan. Mr. Noonan's wife, Tiffany Horne Noonan, is the beneficiary of trusts holding an aggregate of 175,340 shares of class B common stock, but neither she nor Mr. Noonan have sole or shared voting or investment control over any of the shares.
- (23) Consists of 4,870 shares of class A common stock held by Ms. Raines and 1,643 shares of class A common stock the receipt of which Ms. Raines has deferred under our non-employee director stock deferral program.
- (24) Consists of 1,333 shares of class A common stock held by Mr. Sanchez, 3,000 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2014, and 8,369 shares of class A common stock issued to Mr. Sanchez as restricted stock awards under the Company's 2004 Stock Incentive Plan, which are subject to certain restrictions with respect to the transfer and disposition of such shares.
- (25) Consists of 72,756 shares of class A common stock held by our current executive officers and directors, 53,000 shares of class A common stock issuable upon the exercise of stock options within 60 days after February 1, 2014, 4,192 shares of class A common stock issuable upon settlement of restricted stock units within 60 days after February 1, 2014, 30,143 shares of class A common stock the receipt of which have been deferred under our non-employee director stock deferral program, and 50,527 shares of class A common stock issued as restricted stock awards under the Company's 2004 Stock Incentive Plan, which are subject to certain restrictions with respect to the transfer and disposition of such shares.



Table of Contents

**COMPENSATION DISCUSSION AND ANALYSIS**

**Overview of Compensation Programs**

The following Compensation Discussion and Analysis describes the material elements of our fiscal year 2013 compensation program and compensation paid thereunder. Most of the discussion relates to our "named executive officers" for fiscal year 2013, who were:

Dean P. Freeman	Chief Executive Officer, President & Chief Financial Officer
Mario Sanchez	President & Group Managing Director, EMEA
Elie Melhem	President, Asia-Pacific
Kenneth R. Lepage	General Counsel, Executive Vice President of Human Resources & Secretary
David J. Coghlan	Former Chief Executive Officer & President

The Compensation Committee makes decisions for the total direct compensation of the named executive officers based on the factors described below. The Compensation Committee consists solely of independent, non-employee directors. In addition, for named executive officers other than the Chief Executive Officer, the Compensation Committee also considers the Chief Executive Officer's recommendations.

**Executive Summary**

*Company Performance*

Last year was a transitional year for our Company. We delivered solid top line performance during 2013 as we achieved a record level of worldwide sales. This happened despite a decrease in sales in our Europe, Middle East and Africa ("EMEA") segment and was driven primarily by top line growth in the Americas and double digit sales growth in Asia-Pacific. Our operating profits were mixed, with different economic and business dynamics in each of our geographic segments presenting challenges for our business.

In the Americas, we focused on growth and delivered improved sales volume while executing on a challenging transition of many of our product lines to lead free alloys. After a slow first half, we were able to grow sales organically for the full year by taking advantage of a recovery in the residential construction market, a solid repair and replacement market and demand for lead free products toward the end of the year. However, our operating profits were negatively affected by inefficiencies in our conversion to lead free production and product liability costs relating to legacy products. Our EMEA segment continued to be challenged by declining economic conditions throughout 2013. However, our EMEA team was able to partially mitigate the effect of the sales volume decrease by focusing on restructuring and productivity initiatives. In Asia-Pacific, our team made progress in growing our plumbing and HVAC businesses and grew sales organically by 20.5%.

Despite the successes noted above, we did not achieve all of the challenging goals embedded in our annual incentive programs, as discussed in more detail in the sections below.

*Alignment of Pay with Performance*

A substantial portion of each executive's compensation opportunity is performance-based or aligned with stockholder value creation over time in the form of equity grants. Set forth below for our former Chief Executive Officer, and separately for the other named executive officers, are charts

Table of Contents

illustrating the percentage of total target compensation corresponding to base salaries, annual incentives and long-term incentives.

---

**Total Direct Compensation Opportunity Former Chief Executive Officer (1)**

---

<b>Fixed 17%</b> (Base Salary)	<b>Variable 83%</b> (Target Annual Incentive + Long-Term Incentive Value)(2)
-----------------------------------	---

---

<b>Short-Term 34%</b> (Base Salary + Target Annual Incentive)	<b>Long-Term 66%</b> (Long-Term Incentive Value)
--	---

---

<b>Cash 34%</b> (Base Salary + Target Annual Incentive)	<b>Equity-Based 66%</b> (Long-Term Incentive Value)
--	--

---

(1) Total direct compensation opportunity does not include perquisites or other executive benefits, including retirement and severance benefits, or the value of the discount attributable to the purchase price for restricted stock units under our Management Stock Purchase Plan.

(2) Long-Term Incentive value consists of stock options and restricted stock awards.

---

**Total Direct Compensation Opportunity Other Named Executive Officers (1)**  
(Average allocation for four Named Executive Officers other than the former Chief Executive Officer)

---

<b>Fixed 28%</b> (Base Salary)	<b>Variable 72%</b> (Target Annual Incentive + Long-Term Incentive Value(2))
-----------------------------------	---

---

<b>Short-Term 44%</b> (Base Salary + Target Annual Incentive)	<b>Long-Term 56%</b> (Long-Term Incentive Value)
--	---

---

<b>Cash 44%</b> (Base Salary + Target Annual Incentive)	<b>Equity-Based 56%</b> (Long-Term Incentive Value)
--	--

---

(1) Total direct compensation opportunity does not include perquisites or other executive benefits, including retirement and severance benefits, or the value of the discount attributable to the purchase price for restricted stock units under our Management Stock Purchase Plan.

(2) Long-Term Incentive value consists of stock options and restricted stock awards.

## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

Other compensation decisions in 2013 reflected our compensation philosophy, as set forth in more detail below. Each of our named executive officers, other than Mr. Freeman who joined the Company in late 2012, received base salary increases in 2013, reflecting a consideration of individual and Company performance as well as competitive position relative to market, among other factors.

### *Other Practices and Policies to Promote Effective Compensation Governance*

Examples of practices and policies that the Committee has implemented to ensure effective governance of compensation plans include:

Our executives are subject to robust stock ownership guidelines.

Our executives are subject to a compensation recovery policy, or "claw back" policy, under which they may be required to repay unearned compensation in the event of a financial restatement due to fraud or misconduct.

The Compensation Committee has the authority to hire independent counsel and other advisors.

Table of Contents

The Compensation Committee has conducted a review and assessment of risk as it relates to our compensation policies and practices.

Our Insider Trading Procedures prohibit hedging and short sale transactions, and no designated insiders may pledge Company securities as collateral unless approved in advance by the Compensation Committee.

None of our executive officers has an employment agreement with us or any arrangement or agreement that provides for severance payments.

*Say on Pay*

We last submitted our executive compensation program to an advisory vote of our stockholders at our 2011 Annual Meeting and it received the support of 96% of the total votes cast on the proposal. Our Board of Directors reviewed the results of the 2011 advisory vote on our executive compensation program and determined that, given the significant level of support, no significant changes in our executive compensation policies or decisions were necessary. The Compensation Committee will, in consultation with its independent compensation consultant, consider changes to our compensation programs as appropriate in response to evolving factors such as the business environment and competition for talent. In considering changes to our compensation programs and policies, the Compensation Committee will also carefully review the results of this year's advisory vote on our executive compensation program and may seek additional input from stockholders with respect to our executive compensation policies and decisions.

*Recent Events*

Mr. Coghlan resigned as our Chief Executive Officer and President on January 9, 2014. Mr. Freeman was appointed interim President and Chief Executive Officer, and Mr. Coghlan remained employed by the Company in a non-executive advisory role through January 31, 2014 in order to assist with the transition. We did not provide Mr. Coghlan with any severance payments, and all of Mr. Coghlan's unvested stock options immediately terminated and his unvested shares of restricted stock were automatically forfeited upon termination of his employment.

The Board of Directors has retained the firm of Crist Kolder Associates to conduct a search for the company's next Chief Executive Officer, which will include assessment of internal as well as external candidates.

**Compensation Philosophy**

Our executive compensation philosophy, as set by the Compensation Committee of our Board of Directors, is to provide compensation programs that attract, retain and motivate our key executives who are critical to our long-term success. We implement this philosophy through the following principles:

**Positioning** total direct compensation and each component of compensation at approximately the median of our peer companies, which are industry and size relevant and which are identified by a rules-based selection process. Some variation in competitive positioning by executive is expected to account for factors such as tenure, individual performance and criticality of role. When assessing the competitive position of equity-based long-term incentives, we utilize the Black-Scholes-Merton Model or similar methodologies to measure the grant date fair value of our awards.

**Rewarding** achievement relative to short-term goals that we believe will drive long-term stockholder value creation.

Table of Contents

**Aligning** long-term pay outcomes with stockholder value creation over time. This necessitates tying a significant portion of each executive's compensation to Company and individual performance, placing that compensation at risk.

The following key elements are used to compensate our executives:

**Base salaries**, representing the only fixed element of total direct compensation.

**Annual incentives**, currently consisting of a performance-based bonus under the Executive Incentive Bonus Plan, which reward achievement relative to Company goals, both financial and strategic in nature.

**Long-term incentives**, currently consisting of stock options and restricted stock awards, which link pay outcomes to long-term stockholder value creation. Executive officers may also purchase restricted stock units under our Management Stock Purchase Plan, providing additional alignment with stockholder value creation.

In addition, we provide our executive officers with other employee benefits and limited perquisites, which are primarily intended to maintain our competitive position for attracting and retaining executive talent. However, in general, the Compensation Committee strives to mitigate the use of these non-performance based forms of compensation without jeopardizing our ability to offer a compensation program that will attract and retain executives in a competitive market.

**Benchmarking**

Benchmarking is one factor, among many, that we rely on in establishing our compensation levels and program design. We use information regarding pay practices at other comparable companies in two respects. First, we use benchmarking information to evaluate whether our compensation practices are competitive in the marketplace in which we compete for executive talent. Second, we use marketplace information as one factor in assessing the reasonableness of our executive compensation.

In 2013, the Compensation Committee requested Pearl Meyer to perform a comprehensive review of our executive compensation peer group. Pearl Meyer used a rules-based process to evaluate the Company's existing executive compensation peer group and to identify proposed changes to the peer group based on the similarity to Watts Water of the amount of their annual revenues and market capitalization as well as the similarity of their industry, business models, scope of their international operations, primary standard industrial classification codes, index memberships and analyst coverage, while attempting to minimize year-over-year changes in order to foster consistency in the benchmarking approach. Based on its review, Pearl Meyer determined that the Company was smaller in terms of revenue and market capitalization than most of the companies in the existing executive compensation peer group and recommended the removal of certain firms and the addition of other firms to bring the Company closer to the median of the executive compensation peer group with respect to revenue and market capitalization. After reviewing Pearl Meyer's analysis and recommendations, the Compensation Committee removed Regal Beloit Corporation and Roper Industries from the executive compensation peer group and added Altra Holdings Inc. and Crane Co. The revised executive compensation peer group had average annual revenue of approximately \$1.56 billion for the four fiscal quarters preceding the date of analysis, as compared to our revenue of approximately \$1.46 billion for the same period. The revised peer group also had an average market capitalization of \$2.3 billion for the most recent

Table of Contents

quarter prior to the analysis as compared to our market capitalization of approximately \$1.7 billion for the same period. The revised executive compensation peer group comprises the following companies:

Actuant Corporation	CLARCOR Inc.	IDEX Corporation
Acuity Brands, Inc.	Crane Co.	Itron, Inc.
Altra Holdings Inc.	Franklin Electric Co., Inc.	Mueller Industries, Inc.
A.O. Smith Corporation	Gardner Denver, Inc.	Mueller Water Products, Inc.
CIRCOR International, Inc.	Graco Inc.	Robbins & Myers, Inc.

The Compensation Committee, Pearl Meyer and management also consider compensation survey data. The survey data are based on information reported in various Towers Watson survey reports and databases. For executive positions where data from multiple surveys are available, the data are averaged and, if appropriate, weighted to provide a market composite perspective.

**Elements of Compensation**

The following describes each of the elements of our compensation program for 2013.

*Base Salary*

We provide each of our executive officers with a fixed salary that provides a secure base of compensation in an amount that recognizes each officer's role and responsibilities as well as experience, performance and contributions. The Compensation Committee considers base salary increases for our executive officers annually. The amount of any increase is based primarily on the executive officer's performance, level of responsibilities, leadership, experience, employee retention and internal pay equity considerations and the external competitiveness of the officer's base salary and overall total compensation. The Compensation Committee meets with the Chief Executive Officer annually to review proposed adjustments in the base salary amounts for our executive officers other than our Chief Executive Officer and in such review discusses each officer's performance evaluation. The Compensation Committee also reviews the proposed adjustment in base salary and the performance of our Chief Executive Officer with the other independent members of the Board of Directors and conducts a separate discussion with our Chief Executive Officer regarding his performance. As part of its review, the Compensation Committee receives and discusses tally sheets setting forth the total compensation of our executive officers, including base salary, bonus potential, equity awards, retirement benefits, perquisites and other compensation, and information regarding the competitiveness of our compensation programs relative to companies in our benchmarking peer group and other industry survey data. Based on this review, in February 2013 the Compensation Committee approved a 9.0% increase in Mr. Melhem's base salary and a 4.0% increase in Mr. Lepage's base salary. The Compensation Committee determined that the increase in Mr. Melhem's base salary was warranted given his exceptional performance in transforming our Asia-Pacific organization and driving 18% organic growth in Asia-Pacific in 2012. The increase in Mr. Lepage's base salary was based on his strong performance in leading the global legal and human resources functions. The Compensation Committee did not approve an increase in Mr. Freeman's base salary since he had only recently joined the Company in October 2012. Since Mr. Sanchez was not yet an executive officer in February 2013, the Compensation Committee did not review his base salary as part of its annual review of executive officer compensation.

In February 2013, the Compensation Committee conducted a separate review of our Chief Executive Officer's performance and base salary with all of the other independent members of the Board. The independent members of the Board reviewed Mr. Coghlan's performance with respect to his performance goals for 2012 and a competitive assessment of Mr. Coghlan's compensation prepared by Pearl Meyer, which showed that Mr. Coghlan's base salary was below the 25<sup>th</sup> percentile relative to the Company's executive compensation peer group. Based on this review, the independent members of

Table of Contents

the Board approved a 13.85% increase in Mr. Coghlan's base salary from \$650,000 to \$740,000, which placed Mr. Coghlan's base salary at approximately the median relative to the Company's executive compensation peer group.

*Annual Incentives*

Under the Executive Incentive Bonus Plan, each of our executive officers is eligible for an annual cash bonus. We offer our executives an opportunity to earn a bonus in order to focus our executives on execution against specific financial and strategic goals and reward performance based on achievement of such goals. For each of our executive officers, the Compensation Committee sets a target bonus amount expressed as a percentage of base salary. The Compensation Committee determines the target bonus amount for each executive officer based on a variety of factors, including competitive conditions for the executive officer's position within our peer group and in the broader employment market, length of employment, level of responsibility and experience, input from Pearl Meyer, and, in the case of executive officers other than the Chief Executive Officer, the recommendations of the Chief Executive Officer. The 2013 target bonus amounts for our named executive officers were as follows:

	<b>Target as a Percent of Salary</b>	<b>Target in Dollars</b>
Dean P. Freeman	65%	\$ 256,750
Mario Sanchez	55%	\$ 175,615
Elie Melhem	55%	\$ 183,150
Kenneth R. Lepage	60%	\$ 187,200
David J. Coghlan	100%	\$ 740,000

Corporate performance objectives under our Executive Incentive Bonus Plan are established by the end of the first quarter of each fiscal year by our Compensation Committee after consultation with our Chief Executive Officer. For 2013, the company-wide objectives under the Executive Incentive Bonus Plan consisted of a sales objective, a net income objective, a free cash flow objective and a return on invested capital ("ROIC") objective. The objectives for our Americas and EMEA segments consisted of a sales objective, an operating earnings objective, a free cash flow objective and an ROIC objective. The objectives for Asia-Pacific segment consisted of a sales objective, an operating earnings objective and a free cash flow objective. We did not include an ROIC objective for our Asia-Pacific segment since our primary focus within that part of our business is currently on growth. The free cash flow objective measures the amount of free cash generated during the fiscal year. Free cash represents the amount of cash generated by operations during the year less net capitalized expenditures. In setting our 2013 net income and operating earnings targets, the Compensation Committee determined that the targets and results should exclude the effect of unbudgeted restructuring, acquisitions, dispositions, foreign exchange, impairments, and discontinued operations. However, the Compensation Committee reviews all excluded items each year and may exercise its discretion to reduce bonus payouts to reflect the impact of any excluded item. These objectives are intended to align the interests of our management team with the interests of our stockholders. We believe that the capital markets evaluate companies in our industry based primarily on their ability to grow their businesses profitably while maintaining adequate returns on their invested capital. Our bonus objectives provide an incentive to management to maintain a balanced approach to growth, with appropriate emphasis on revenues, profitability and cash flow. If we are successful in meeting or exceeding our goals under these objectives, we believe that this will lead to the creation of additional value for our stockholders.

The Compensation Committee, in consultation with our Chief Executive Officer, determines the relative weight to be assigned to each objective. For 2013, the Compensation Committee weighted the net income or operating earnings objectives for the Company as a whole, the Americas and EMEA at 40% and each of the other three objectives at 20%. The Compensation Committee placed greater emphasis on the net income and operating earnings measures for the Americas and EMEA because it

## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

### Table of Contents

believed that given the continued sluggishness of the economic environments in those regions, our focus should be on encouraging productivity, cost containment and profitability with less emphasis on top line growth. For our Asia-Pacific segment, the Compensation Committee weighted the sales objective at 50% and each of the other two objectives at 25% in order to place greater emphasis on growing our Asia-Pacific business.

For 2013, Messrs. Freeman, Lepage and Coghlan's bonuses were based entirely on the performance of our Company as a whole. Since the responsibilities of Mr. Sanchez and Mr. Melhem are substantially tied to the EMEA and Asia-Pacific segments, respectively, 70% of their 2013 bonus objectives were based on their respective segment performance, with 30% based on the performance of the Company as a whole. The relevant performance measures, performance targets and our results with respect to each performance measure for our named executive officers are set forth in the tables provided below. As noted above, the performance targets and results have been adjusted to exclude the effect of unbudgeted restructuring, acquisitions, dispositions, foreign exchange, impairments, and discontinued operations.

The 2013 performance measures and related targets for the Company as a whole and our results with respect to each performance measure were as follows:

Performance Measures	Performance Targets (in millions except ROIC)			2013 Results (in millions except ROIC)	% of Bonus Objective Achieved	Weighted Bonus % Earned
	0%	100%	200%			
Consolidated Sales	\$ 1,368	\$ 1,520	\$ 1,672	\$ 1,474	69.4%	13.9%
Consolidated Net Income	\$ 79	\$ 88	\$ 106	\$ 67	0.0%	0.0%
Consolidated Free Cash Flow	\$ 95	\$ 106	\$ 127	\$ 97	15.6%	3.1%
Consolidated ROIC	9.0%	10.0%	11.0%	8.1%	0.0%	0.0%

**Total Bonus Earned as a Percentage of Target Amount: 17.0%**

The 2013 performance measures and related targets for our EMEA segment and our results with respect to each performance measure were as follows:

Performance Measures	Performance Targets (in millions except ROIC)			2013 Results (in millions except ROIC)	% of Bonus Objective Achieved	Weighted Bonus % Earned
	0%	100%	200%			
EMEA Sales	€ 403	€ 447	€ 492	€ 423	46.1%	9.2%
EMEA Operating Earnings	€ 41	€ 45	€ 54	€ 41	10.8%	4.3%
EMEA Free Cash Flow	€ 44	€ 49	€ 59	€ 61	200.0%	40.0%
EMEA ROIC	7.2%	8.0%	8.8%	7.6%	45.4%	9.1%

**Total Bonus Earned as a Percentage of Target Amount: 62.6%**

The 2013 performance measures and related targets for our Asia-Pacific segment and our results with respect to each performance measure were as follows:

Performance Measures	Performance Targets (in millions)			2013 Results (in millions)	% of Bonus Objective Achieved	Weighted Bonus % Earned
	0%	100%	200%			
Asia-Pacific Trade Sales	¥ 204	¥ 227	¥ 250	¥ 203	0.0%	0.0%
Asia-Pacific Operating Earnings	¥ 48	¥ 53	¥ 64	¥ 70	200.0%	50.0%
Asia-Pacific Free Cash Flow	¥ 33	¥ 37	¥ 44	¥ 74	200.0%	50.0%

**100.0%**



**Total Bonus Earned as a Percentage of Target  
Amount:**

29

---

Table of Contents

In line with our pay-for-performance philosophy, our executives received competitive compensation for 2013 commensurate with these results. Messrs. Freeman, Lepage and Coghlan each earned 17.0% of his target bonus amount, Mr. Sanchez earned 48.9% of his target bonus amount, and Mr. Melhem earned 75.1% of his target bonus amount.

*Long-Term Incentives*

We provided long-term incentive compensation for our executive officers during 2013 in the form of the purchase of restricted stock units under our Management Stock Purchase Plan and the grant of stock options and restricted stock awards under our 2004 Stock Incentive Plan. The Compensation Committee believes in granting equity-based incentive compensation as an important component of our executive compensation program to encourage sustainable growth and long-term value creation, align the interests of our executives with those of our stockholders by exposing executives to stock price changes during the vesting or deferral periods, and to attract and retain executive talent.

Our practice is that all equity awards should be granted as of the third business day following the release of our most recent quarterly earnings to the public. The purpose for setting the grant date of stock options on a day following the release of our most recent quarterly earnings to the public is to ensure that we are using a date when the public markets have a maximum amount of information about our financial performance and have had a sufficient amount of time to understand and react to such information.

*Management Stock Purchase Plan.* Our Management Stock Purchase Plan is intended to provide an incentive for our executives to purchase and hold more of our class A common stock, thereby more closely aligning their interests with the interests of our stockholders. The Compensation Committee approves the participants in the Management Stock Purchase Plan based on recommendations made by senior management. Under the Management Stock Purchase Plan, participants may purchase restricted stock units at a discount of 33% from the closing sale price of our class A common stock using all or a portion of their pre-tax annual performance bonus. For 2013, each of Messrs. Freeman, Sanchez, Melhem and Coghlan elected to contribute 50% of his annual performance bonus, and Mr. Lepage elected to contribute 75% of his annual performance bonus, to the purchase of restricted stock units under the Management Stock Purchase Plan. A more detailed description of the Management Stock Purchase Plan can be found under the "Grants of Plan-Based Awards" table below.

*Stock Options and Restricted Stock Awards.* We use stock options and restricted stock to align the interests of our executives with those of our stockholders by motivating them to achieve long-term strategic goals and thereby increase the value of our stock. The Compensation Committee typically approves annual grants of stock options and restricted stock awards at its regularly scheduled third quarter meeting. We grant a mix of stock options and restricted stock in order to achieve a balance between the retention benefits of restricted stock and the long-term performance incentives provided by stock options. The total value of the annual equity grant for our executive officers is typically set by reference to a multiple of such executive officers' base salaries, which equity-based multiple is assessed using our executive compensation peer group. In accordance with our compensation philosophy, we generally position our annual equity grant value at approximately the median of our executive compensation peer group.

For 2013, after consulting with Pearl Meyer and reviewing the most recent competitive analysis of executive compensation prepared by Pearl Meyer, the Compensation Committee determined that the annual equity grant to the Company's Chief Executive Officer should have a total grant date fair value equal to three times his base salary and the annual equity grant to each of our other executive officers should have a total grant date fair value equal to one-and-a-half times his or her base salary. The Compensation Committee then determined that approximately half of the total grant date fair value of an executive's equity award should be in the form of stock options and half of the total grant date fair

Table of Contents

value should be in the form of restricted stock. Because recipients of restricted stock receive the full market value of their shares of restricted stock upon vesting rather than just the amount of any appreciation in the value of our stock after the date of grant, the grant date fair value of a share of restricted stock is considered to have more value on the date of grant than an option to purchase a share of stock. We used a Black-Scholes-Merton valuation model to determine the grant date fair value of our 2013 stock option awards, which indicated that an option to purchase one share of our stock was roughly equal in value to one-third of a share of restricted stock. Accordingly, although the grant date fair value of the restricted stock the Compensation Committee awarded to our executive officers in 2013 was approximately the same as that of the stock options awarded to our executive officers, the number of shares of restricted stock each executive received was approximately one-third of the number of shares underlying his or her stock option grant.

In determining the number of shares to grant to each executive officer in 2013, the Compensation Committee noted that the Company's stock price had increased significantly over the prior year. After consulting with Pearl Meyer, the Compensation Committee decided that in determining the number of shares to be granted to the executive officers in 2013, the Company should use a stock price that is no more than 20% higher than the price used to determine the number of shares granted in the prior year in order to avoid an overly punitive reduction in the number of shares awarded. In 2012, the Compensation Committee used an average stock price of \$35.00 to determine the number of shares to grant to our executive officers. Accordingly, the number of shares awarded to our executive officers in 2013 was determined using an artificial stock price that was 20% higher than \$35.00, which was a price of \$42.00, rather than the actual stock price of \$54.76 on the date of grant. The Compensation Committee has continued to work with Pearl Meyer to evaluate different methods for determining the number of shares to grant to our executive officers each year and the Compensation Committee currently intends to begin using a twelve-month trailing average stock price to determine the size of equity awards in 2014.

*Benefits and Perquisites*

We provide our executive officers with certain employee benefits and perquisites as a means of providing additional compensation that is designed to be competitive with other compensation provided by companies in our peer group.

Retirement benefits are provided through a qualified defined contribution 401(k) plan for all of our full-time eligible employees who are United States residents. Prior to 2012, eligible United States employees also earned benefits under a qualified defined benefit pension plan, and some of our named executive officers also were eligible to accrue benefits under a supplemental non-qualified defined benefit plan. Effective December 31, 2011, we froze benefits under both the tax-qualified and non-qualified pension plans and our 401(k) Plan was enhanced to include Company-provided core and matching contributions for all eligible United States employees. A more detailed description of these historic pension benefits can be found under "Pension Benefits" below.

We also provide our executive officers with a limited number of perquisites as part of their compensation arrangements, including the choice of receiving a cash automobile allowance or the use of an automobile leased by the Company and the option of receiving a comprehensive executive physical examination. The amount of the automobile allowance or the maximum amount of the lease payments for the automobile used by each executive officer is determined by our Chief Executive Officer and reviewed by the Compensation Committee, and the Compensation Committee determines the maximum amount of our Chief Executive Officer's automobile allowance or lease payments to be paid by the Company. We also pay maintenance expenses for the leased automobiles and provide automobile insurance coverage under our corporate umbrella policy. In 2013, we began offering our executives the option of having an annual Company-paid comprehensive physical examination following the sudden illness of one of our executive officers, which resulted in his going on indefinite medical leave from the Company.

Table of Contents

In addition, in connection with their assignments outside of the United States, we provided Mr. Sanchez and Mr. Melhem with customary expatriate benefits to address the unique circumstances arising from their living and working abroad.

**Compensation Recovery**

In February 2014, we adopted a Compensation Recovery Policy, commonly referred to as a "claw back" policy, for our executive officers and chief accounting officer. Under this policy, in the event of a financial restatement due to fraudulent activity or intentional misconduct as determined solely by the Compensation Committee, our executive officers and chief accounting officer may be required to reimburse the Company for the difference between any incentive compensation (such as payments under the Executive Incentive Bonus Plan), equity awards or other compensation that was based on having met or exceeded Company performance targets that would not have been met based upon accurate financial data and the compensation that would have been, granted, received, vested or accrued had such compensation been calculated based on the accurate data or restated results.

**Employment Agreements**

None of our executive officers has an employment agreement with us.

We have entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements provide indemnity, including the advancement of expenses, to our directors and executive officers against liabilities incurred in the performance of their duties to the fullest extent permitted by the General Corporation Law of the State of Delaware.

**Post-Termination Compensation and Change in Control Arrangements**

None of our current executive officers had any arrangement or agreement during 2013 that provided for severance payments.

None of our executive officers is entitled to payment of any benefits upon a change in control of Watts Water, except that our 2004 Stock Incentive Plan and Management Stock Purchase Plan provide that in connection with a change in control all unvested stock options, shares of restricted stock, and restricted stock units will become fully vested.

**Stock Ownership Guidelines**

The Compensation Committee monitors compliance with the stock ownership guidelines approved by the Compensation Committee for all executive officers and other members of senior management. For 2013, our Chief Executive Officer was required to hold shares of our stock with a value of at least five times the amount of his base salary, our Chief Financial Officer was required to hold shares of our stock with a value of at least three times the amount of his base salary and our other executive officers were required to hold shares of our stock with a value of at least twice their base salary. In determining the number of shares owned by an executive, the Compensation Committee takes into account shares held directly, the shares underlying restricted stock units purchased by the executive under our Management Stock Purchase Plan and shares of restricted stock, but not stock options. Our officers are expected to comply with these requirements within five years of their appointment as an executive officer. The Compensation Committee evaluates compliance with these guidelines in connection with making its compensation decisions and recommendations at its regularly scheduled third quarter meeting. Compliance is typically measured based on stock ownership as of the last day of the second quarter. At the end of the second quarter of 2013, all of our executive officers who had been executive officers of Watts Water for five or more years were in compliance with our stock ownership guidelines.

Table of Contents

**Impact of Regulatory Requirements**

The financial reporting and income tax consequences of individual compensation elements are important considerations for the Compensation Committee when it is analyzing the overall level of compensation and the mix of compensation paid to our executive officers. However, other factors may be of greater importance than preserving deductibility for a particular form of compensation. Overall, the Compensation Committee seeks to balance its objective of ensuring an effective compensation package for our executive officers with the desire to maximize the immediate deductibility of compensation, while ensuring an appropriate and transparent impact on reported earnings and other financial measures.

In making its compensation decisions, the Compensation Committee has considered that under Internal Revenue Code Section 162(m) we are not permitted to deduct for tax purposes compensation in excess of \$1 million paid to our named executive officers (other than the Chief Financial Officer). However, certain compensation that qualifies as "performance-based compensation" under the requirements of Section 162(m) is exempt from this deduction limit. The Compensation Committee designs much of the total compensation packages for our executive officers to qualify for the performance-based compensation exemption from the deductibility limit. However, the Compensation Committee does have the discretion to design and use compensation elements that may not be deductible under Section 162(m) if it believes such elements are appropriate and in the best interest of the Company and its stockholders. For 2013, our annual performance bonus payments to our executives, restricted stock units purchased by our executives using their annual performance bonus, and stock option grants under our 2004 Stock Incentive Plan should be deemed performance-based compensation under Section 162(m). Our base salary payments and restricted stock grants, as currently structured, are not considered performance-based for purposes of Section 162(m), and such salary and restricted stock grants will not be tax deductible by us to the extent their combined value exceeds the \$1 million limit for any one executive.

Table of Contents**EXECUTIVE COMPENSATION****Compensation Summary**

The following table contains information with respect to the compensation for the fiscal years ended December 31, 2013, 2012 and 2011 of our Chief Executive Officer and Chief Financial Officer, our former Chief Executive Officer and our next three most highly compensated executive officers serving as executive officers at the end of the last completed fiscal year. We refer to the executive officers identified in this table as our "named executive officers."

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Change in Pension Value and Non-Equity Nonqualified Incentive Deferred Plan Compensation		All Other Compensation (\$)	Total (\$)
						Plan Compensation (\$)(3)	Earnings (\$)(4)		
Dean P. Freeman Chief Executive Officer, President & Chief Financial Officer (5)	2013	395,000		398,816	398,083	21,862		81,225(6)	1,294,986
	2012	77,987	100,000(7)	321,360	343,200	14,084		87,905	944,536
Mario Sanchez President & Group Managing Director, EMEA (8)	2013	319,300		336,302	321,552	42,983		148,177(9)	1,168,314
Elie Melhem President, Asia (10)	2013	333,000		364,459	335,640	68,805		253,949(11)	1,355,853
	2012	300,000		224,414	202,350	65,536	24,525	192,356	1,009,181
	2011	124,231		72,625	76,425	75,459		88,455	437,195
Kenneth R. Lepage General Counsel, Executive Vice President of Human Resources & Secretary	2013	312,000		318,429	314,163	7,984		34,149(12)	986,725
	2012	282,500		358,404	283,290	12,709	53,929	32,908	1,023,740
	2011	255,000		248,521	152,850	37,063	64,062	17,222	774,718
David J. Coghlan Former Chief Executive Officer & President (13)	2013	740,000		1,447,252	1,490,284	125,800		45,330(14)	3,848,666
	2012	650,000		1,174,591	1,214,100	91,668	32,545	41,528	3,204,432
	2011	585,833		768,486	611,400	317,004	57,873	27,088	2,367,684

## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

(1)

The amounts shown in this column reflect the grant date fair value of restricted stock awards under our 2004 Stock Incentive Plan and restricted stock units purchased under our Management Stock Purchase Plan determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. The amounts in this column attributable to restricted stock units purchased under our Management Stock Purchase Plan relate to restricted stock units purchased using all or a portion of the named executive officer's bonus award for the year indicated. For example, the amounts shown for 2012 include amounts attributable to restricted stock units purchased by the named executive officers on February 22, 2013 using all or a portion of their 2012 bonus award. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 12 to our audited consolidated financial statements for the year ended December 31, 2013 included in our Annual Report on Form 10-K filed with the SEC on February 27, 2014, except for fair value attributable to the restricted stock units purchased under our Management Stock Purchase Plan on February 21, 2014 using all or a portion of the named executive officer's bonus for 2013. The fair value of each restricted stock unit purchased under the Management Stock Purchase Plan on February 21, 2014 was estimated on the date of grant using the Black-Scholes-Merton Model based on the following weighted average assumptions:

Expected life:	3.0 years
Expected stock price volatility:	31.15%
Expected dividend yield:	0.87%
Risk-free interest rate:	0.71%

The risk-free interest rate is based on the U.S. treasury yield curve at the time of grant for the expected life of the restricted stock unit. The expected life, which is defined as the estimated period of time outstanding, of the restricted stock unit and the volatility were calculated using historical data. The expected dividend yield is our best estimate of the expected

# Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

## Table of Contents

future dividend yield. Based on these assumptions, the weighted average grant date fair value of a restricted stock unit purchased on February 21, 2014 was \$22.57.

(2)

The amounts shown in this column reflect the grant date fair value of stock options granted under our 2004 Stock Incentive Plan determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. A discussion of the assumptions used in calculating the amounts in this column may be found in Note 12 to our audited consolidated financial statements for the year ended December 31, 2013 included in our Annual Report on Form 10-K filed with the SEC on February 27, 2014.

(3)

The amounts shown in this column reflect amounts earned under our Executive Incentive Bonus Plan that the named executive officer elected to receive in cash. Amounts earned by our named executive officers under the Executive Incentive Bonus Plan that were used to purchase restricted stock units under our Management Stock Purchase Plan are not shown in this column. As indicated in footnote (1) above, the grant date fair value of restricted stock units purchased under our Management Stock Purchase Plan using all or a portion of the named executive officer's bonus are included in the amounts shown in the Stock Awards column for each year. Although Mr. Coghlan elected to use 50% of his 2013 annual performance bonus to purchase restricted stock units, because his employment terminated prior to the date of issuance of the restricted stock units for 2013 he was not issued any restricted stock units and his entire 2013 annual performance bonus will be paid in cash. The amounts each named executive officer elected to use of his annual performance bonus under the Executive Incentive Bonus Plan to purchase restricted stock units under our Management Stock Purchase Plan and the number of restricted stock units so purchased by each named executive officer are as follows:

Year	Percentage of Annual Bonus Used	Amount of Bonus for Year	Amount of Bonus Used to Purchase Restricted Stock Units	Number of Restricted Stock Units Purchased
Mr. Freeman	2013	50% \$ 43,648	\$ 21,786	541
Mr. Sanchez	2013	50% \$ 85,911	\$ 42,928	1,066
Mr. Melhem	2013	50% \$ 137,546	\$ 68,741	1,707
	2012	50% \$ 131,010	\$ 65,505	2,070
Mr. Lepage	2013	75% \$ 31,824	\$ 23,840	592
	2012	75% \$ 50,760	\$ 38,070	1,203
	2011	75% \$ 148,199	\$ 111,149	4,192
Mr. Coghlan	2013	\$ 125,800		
	2012	50% \$ 183,300	\$ 91,650	2,897
	2011	50% \$ 634,006	\$ 317,003	11,957

The number of restricted stock units purchased was determined by dividing the dollar amount of bonus used in the above table by \$40.27 for 2013, \$31.63 for 2012 and \$26.51 for 2011, which is 67% of the closing price of our class A common stock on February 21, 2014, February 22, 2013 and February 23, 2012, respectively, which was the third business day after the release of our 2013, 2012 and 2011 annual earnings.

(4)

The amounts shown in this column reflect the aggregate change in actuarial present value of the named executive officer's accumulated benefit under our Pension Plan and our Supplemental Plan from January 1 to December 31 of each year. Because of changes in assumptions underlying the present value calculations from the end of 2012 to the end of 2013, there was no increase in pension values for any of the named executives, and \$0 has been included in this column for 2013. The changes in assumptions caused the pension values to *decrease* since the prior year as described below. See footnote (1) following the 2013 Pension Benefits table for more details on the assumptions used to determine the present values. The pension value for Mr. Lepage decreased by \$42,080 during 2013; this includes a decrease of \$50,799 due to changes in assumptions underlying the present value



## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

calculations offset by an increase of \$8,719 due to the effect of Mr. Lepage being one year closer to his assumed retirement age. The pension value for Mr. Melhem decreased by \$3,603 during 2013; this includes a decrease of \$4,583 due to changes in assumptions underlying the present value calculations offset by an increase of \$980 due to the effect of Mr. Melhem being one year closer to his assumed retirement age. The pension value for Mr. Coghlan decreased by \$20,268 during 2013; this includes a decrease of \$27,424 due to changes in assumptions underlying the present value calculations offset by an increase of \$7,156 due to the effect of Mr. Coghlan being one year closer to his assumed retirement age.

(5)

Mr. Freeman commenced employment with us in October 2012 and was appointed Chief Financial Officer and Executive Vice President in November 2012. Mr. Freeman was appointed as our interim Chief Executive Officer and President following the resignation of David J. Coghlan on January 9, 2014.

## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

### Table of Contents

- (6) The amount indicated for Mr. Freeman in the All Other Compensation column for 2013 consists of \$52,510 in relocation expenses, automobile lease and maintenance expenses, 401(k) Plan contributions, an automobile insurance premium, term life and accidental death and dismemberment insurance premiums, and the cost to the Company of an executive physical examination.
- (7) Mr. Freeman received a signing bonus of \$100,000 following the commencement of his employment with us. Mr. Freeman will be required to reimburse us the full amount of the signing bonus in the event his employment with us terminates during his first 24 months of employment for any reason except for a termination initiated by the Company due to a reorganization or lack of work.
- (8) Mr. Sanchez was promoted from Vice President of Plumbing and Heating, EMEA to President and Group Managing Director, EMEA in June 2013.
- (9) The amount indicated for Mr. Sanchez in the All Other Compensation column for 2013 includes 401(k) Plan contributions, the cost to the Company of an executive physical examination and accidental death and dismemberment insurance premiums. In addition, in connection with his assignment in Europe, we provided Mr. Sanchez with customary expatriate benefits to address the unique circumstances arising from living and working abroad. The amount indicated for Mr. Sanchez in the All Other Compensation column for 2013 also includes the cost of these expatriate benefits, including \$56,299 in relocation expenses, \$32,153 of automobile lease and fuel expenses, and a housing allowance of \$31,280. The dollar amounts shown for Mr. Sanchez under the All Other Compensation column include amounts converted from euros into U.S. dollars using the interbank conversion rate of 1.3724 U.S. dollars for one euro in effect on February 21, 2014.
- (10) Mr. Melhem commenced employment with us in July 2011.
- (11) The amount indicated for Mr. Melhem in the All Other Compensation column for 2013 includes 401(k) Plan contributions, the cost to the Company of an executive physical examination and term life and accidental death and dismemberment insurance premiums. In addition, in connection with his assignment in China, we provided Mr. Melhem with customary expatriate benefits to address the unique circumstances arising from living and working abroad. The amount indicated for Mr. Melhem in the All Other Compensation column for 2013 also includes the cost of these expatriate benefits, including \$112,278 for housing expenses, \$62,114 for use of a car and driver, \$26,903 in exchange rate adjustment payments, school tuition for Mr. Melhem's child and tax equalization payments. The dollar amounts shown for Mr. Melhem under the All Other Compensation column include amounts converted from Chinese yuan into U.S. dollars using the following interbank conversion rates in effect on the indicated dates:
- 2013: 0.1635 U.S. dollars for one Chinese yuan as of February 21, 2014
- 2012: 0.1589 U.S. dollars for one Chinese yuan as of February 22, 2013
- 2011: 0.1587 U.S. dollars for one Chinese yuan as of February 23, 2012
- (12) The amount indicated for Mr. Lepage in the All Other Compensation column for 2013 consists of automobile lease and maintenance expenses, 401(k) Plan contributions, term life and accidental death and dismemberment insurance premiums, automobile insurance premiums, and the cost to the Company of an executive physical examination.
- (13) Mr. Coghlan was promoted from Chief Operating Officer to Chief Executive Officer and President in January 2011. Mr. Coghlan resigned as our Chief Executive Officer and President on January 9, 2014.
- (14) The amount indicated for Mr. Coghlan in the All Other Compensation column for 2013 consists of an automobile allowance, 401(k) Plan contributions, term life and accidental death and dismemberment insurance premiums, and the cost to the Company of an executive physical examination.

Table of Contents**Grants of Plan-Based Awards**

The following table shows information concerning grants of plan-based awards made during 2013 to the named executive officers.

**2013 GRANTS OF PLAN-BASED AWARDS**

Name	Grant Type(1)	Grant Date	Date of Compensation Committee or Board of Directors Action	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(2)			Estimated Possible Payouts Under Equity Incentive Plan Awards(3)			Stock Awards: Number of Shares or Units (#)	Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)(4)	Grant Date Fair Value of Stock and Option Awards (\$)(5)
				Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)				
Dean P. Freeman	EIBP			0	128,375	256,750	0	128,375	256,750	7,060			
	SIP	8/2/13	7/29/13										386,606
	SIP	8/2/13	7/29/13								19,610	54.76	398,083
Mario Sanchez	EIBP			0	87,808	175,615		87,808	175,615	5,702			
	SIP	8/2/13	7/29/13										312,242
	SIP	8/2/13	7/29/13								15,840	54.76	321,552
Elie Melhem	EIBP			0	91,575	183,150	0	91,575	183,150	5,952			
	SIP	8/2/13	7/29/13										325,932
	SIP	8/2/13	7/29/13								16,534	54.76	335,640
Kenneth R. Lepage	EIBP			0	46,800	93,600	0	140,400	280,800	5,571			
	SIP	8/2/13	7/29/13										305,068
	SIP	8/2/13	7/29/13								15,476	54.76	314,163
David J. Coghlan	EIBP			0	370,000	740,000	0	370,000	740,000	26,429			
	SIP	8/2/13	7/29/13										1,447,252
	SIP	8/2/13	7/29/13								73,413	54.76	1,490,284

(1) "EIBP" indicates awards under our Executive Incentive Bonus Plan and "SIP" indicates stock option or restricted stock awards under our 2004 Stock Incentive Plan.

(2) The amounts in these columns indicate the possible payout amounts under our Executive Incentive Bonus Plan that the named executive officer elected to receive in cash.

(3) The amounts in these columns indicate the possible payout amounts under our Executive Incentive Bonus Plan that the named executive officer elected to use to purchase restricted stock units under our Management Stock Purchase Plan. For 2013, Messrs. Freeman, Sanchez, Melhem and Coghlan each elected to contribute 50% of his performance bonus payment under the Executive Incentive Bonus Plan to the purchase of restricted stock units under the Management Stock Purchase Plan and Mr. Lepage elected to contribute 75% of his performance bonus payment under the Executive Incentive

## Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

Bonus Plan to the purchase of restricted stock units under the Management Stock Purchase Plan.

(4)

On July 29, 2013, the Compensation Committee approved the annual grants of stock options and restricted stock as of the third business day following the release of our second quarter earnings to the public. Our second quarter earnings press release was issued on July 30, 2013, and the date of grant of the stock options and restricted stock awards for fiscal 2013 was August 2, 2013. The exercise price of the stock options is \$54.76, which was the closing sale price of our class A common stock on August 2, 2013. The closing sale price of our class A common stock on July 29, 2013 was \$52.00.

(5)

The amounts shown in this column represent the grant date fair value of each equity award as determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718.

The target amounts shown under the "Estimated Possible Payouts Under Non-Equity Incentive Plan Awards" columns reflect the cash payments that would have been made to the named executive officers if we had achieved 100% of each of the performance objectives under the Executive Incentive Bonus Plan. The maximum amounts are 200% of such target amounts. Participants in the Executive Incentive Bonus Plan would have received no bonus payments if we had not exceeded the threshold performance levels under all of their assigned performance objectives. Target bonus amounts under the Executive Incentive Bonus Plan are determined as a percentage of base salary.

The target amounts shown under the Estimated Possible Payouts Under Equity Incentive Plan Awards column reflect the amount of the named executive officer's bonus payment that would have been allocated to the purchase of restricted stock units under our Management Stock Purchase Plan if we had achieved 100% of each of the performance objectives under the Executive Incentive Bonus

Table of Contents

Plan. The maximum amounts are 200% of such target amounts. Each of the named executive officers made an election under the Management Stock Purchase Plan prior to December 31, 2012 to receive restricted stock units in lieu of a specified percentage of his cash bonus payment for fiscal 2013 under the Executive Incentive Bonus Plan as specified in footnote (3) to the above table.

Under our Management Stock Purchase Plan, the purchase price for restricted stock units is 67% of the closing price of our class A common stock on the date of grant. The restricted stock units vest in three equal annual installments beginning one year after the date of grant. At the end of the deferral period specified by the named executive officer under the Management Stock Purchase Plan, we will issue one share of class A common stock for each vested restricted stock unit. Cash dividends equivalent to those paid on our class A common stock will be credited to the named executive officer's account for non-vested restricted stock units and will be paid in cash to the named executive officer when such restricted stock units become vested. Dividends will also be paid in cash to individuals for vested restricted stock units held during any deferral period.

All stock options and restricted stock awards were granted under our 2004 Stock Incentive Plan. The stock options vest over four years at the rate of 25% per year beginning on the first anniversary of the date of grant. Vested stock options terminate upon the earlier of six months following termination of employment, subject to certain exceptions, or ten years from the date of grant. The restricted stock awards vest over three years at a rate of 33 $\frac{1}{3}$ % each year beginning on the first anniversary of the date of grant. Unvested shares of restricted stock are automatically forfeited upon termination of an executive officer's employment for any reason other than death or disability.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

The following table shows information regarding unexercised stock options and unvested restricted stock and restricted stock units held by the named executive officers as of December 31, 2013.

**2013 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

Name	Grant Date	Option Awards(1)				Stock Awards(2)	
		Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
Dean P. Freeman	11/2/12	6,000	18,000	40.17	11/2/22		
	8/2/13	0	19,610	54.76	8/2/23		
	11/2/12					5,334(4)	330,015
	8/2/13					7,060(4)	436,802
Mario Sanchez	8/3/12	3,000	9,000	37.41	11/2/22		
	8/2/13	0	15,840	54.76	8/2/23		
	8/3/12					2,667(4)	165,007
	8/2/13					5,702(4)	352,783
	2/22/13					1,248(5)	77,214
Elie Melhem	8/5/11	0	3,750	29.05	8/5/21		
	8/3/12	0	11,250	37.41	8/3/22		
	8/2/13	0	16,534	54.76	8/2/23		
	8/5/11					834(4)	51,600
	8/3/12					3,334(4)	206,275
	8/2/13					5,952(4)	368,250
Kenneth R. Lepage	8/3/07	4,000	0	33.36	8/3/17		
	8/1/08	6,000	0	29.35	8/1/18		
	7/31/09	10,000	0	26.34	7/31/19		
	8/6/10	11,250	3,750	33.65	8/6/20		
	8/5/11	7,500	7,500	29.05	8/5/21		
	8/3/12	5,250	15,750	37.41	8/3/22		
	8/2/13	0	15,476	54.76	8/2/23		
	3/1/11					334(4)	20,665
	8/5/11					1,667(4)	103,137
	8/3/12					6,001(4)	371,282
	8/2/13					5,571(4)	344,678
3/1/11					1,227(5)	75,914	

Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

						2,795(5)	172,927
						1,203(5)	74,430
<hr/>							
David J. Coghlan	8/1/08	15,000	0	29.35	8/1/18		
	7/31/09	15,000	0	26.34	7/31/19		
	8/6/10	22,500	7,500	33.65	8/6/20		
	8/5/11	30,000	30,000	29.05	8/5/21		
	8/3/12	22,500	67,500	37.41	8/3/22		
	8/2/13	0	73,413	54.76	8/2/23		
	8/5/11					6,667(4)	412,487
	8/3/12					20,000(4)	1,237,400
	8/2/13					26,429(4)	1,635,162
	3/1/11					1,793(5)	110,933
	2/23/12					7,972(5)	493,228
	2/22/13					2,897(5)	179,237
<hr/>							

- (1) The stock options listed in this column were granted under our 2004 Stock Incentive Plan and vest 25% per year beginning on the first anniversary of the date of grant.
- (2) The restricted stock units and restricted stock awards listed in this column vest over three years in equal annual installments beginning on the first anniversary of the date of grant.
- (3) In accordance with SEC rules, the market value of unvested shares of restricted stock and restricted stock units is determined by multiplying the number of such shares and units by \$61.87, the closing market price of our class A common stock on December 31, 2013.
- (4) Consists of shares of restricted stock awarded under our 2004 Stock Incentive Plan.
- (5) Consists of restricted stock units purchased under the Management Stock Purchase Plan.

Table of Contents**Option Exercises and Stock Vested**

The following table shows amounts received by the named executive officers upon exercise of stock options and vesting of restricted stock and restricted stock units during 2013.

**2013 OPTION EXERCISES AND STOCK VESTED**

Name	Option Awards		Stock Awards(1)	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)(2)
Dean P. Freeman			2,666	155,055
Mario Sanchez			1,333	72,675
Elie Melhem	7,500	154,217	2,499	136,245
Kenneth R. Lepage	8,000	156,045	10,790	453,378(3)
David J. Coghlan			29,009	1,284,949(4)

(1) Reflects shares of class A common stock underlying restricted stock units purchased under the Management Stock Purchase Plan and shares of restricted stock awarded under the 2004 Stock Incentive Plan.

(2) The value realized on vesting of restricted stock awards is determined by multiplying the number of shares that vested by the fair market value of our class A common stock on the vesting date. The value realized on vesting of restricted stock units represents the difference between the purchase price paid by the named executive officer for the vesting shares and the fair market value of our class A common stock on the vesting date.

(3) Pursuant to the Management Stock Purchase Plan, Mr. Lepage elected to defer receipt of shares issuable upon settlement of restricted stock units representing \$26,531 of the value recognized on vesting until March 1, 2014.

(4) Pursuant to the Management Stock Purchase Plan, Mr. Coghlan elected to defer receipt of shares issuable upon settlement of restricted stock units representing \$38,779 of the value recognized on vesting until March 1, 2014.



**Pension Benefits**

We maintain two defined benefit plans, both of which were frozen effective December 31, 2011. This means that benefit amounts under both plans do not reflect any pay or service earned after December 31, 2011. The Watts Water Technologies, Inc. Pension Plan, which we refer to as the Pension Plan, provides funded, tax-qualified benefits up to the limits on compensation and benefits under the Internal Revenue Code. The Watts Water Technologies, Inc. Supplemental Employees Retirement Plan, which we refer to as the Supplemental Plan, provides unfunded additional monthly benefits to a select group of key executives. Details of both plans are described below.

The 2013 Pension Benefits table below shows the named executive officers' years of benefit service, present value of accumulated benefit and payments during the last fiscal year under each of the plans. The "present value of accumulated benefit" is the lump-sum value as of December 31, 2013 of the annual pension benefit earned as of December 31, 2013 payable under a plan for the executive's life beginning on the named executive officer's normal retirement age, reflecting current years of benefit service, current Final Average Compensation (generally the highest five consecutive years of the last

Table of Contents

ten), and current statutory and plan-specific benefit and pay limits. Certain assumptions were used to determine the lump-sum value and to determine the annual pension that is payable beginning at normal retirement age. Those assumptions are described immediately following the 2013 Pension Benefits table.

For purposes of the Pension Plan and Supplemental Plan, compensation means the executive's Form W-2 compensation, but also including contributions to our 401(k) plan and any salary deferrals under our health care or dependent care reimbursement plans, but excluding compensation deferred under the Nonqualified Deferred Compensation Plan and the Management Stock Purchase Plan, stock awards, options or other taxable fringe benefits.

***Pension Plan***

All of the named executive officers, except for Mr. Freeman and Mr. Sanchez, were eligible for the Pension Plan. Mr. Freeman and Mr. Sanchez were not eligible as they were hired after benefits under the Pension Plan were frozen. The Pension Plan provides for monthly benefits to, or on behalf of, each covered employee at age 65 (normal retirement age) 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 multiplied by years of benefit service (maximum 25 years), reduced by the Maximum Offset Allowance (as defined in the Pension Plan), subject to limits on compensation and benefits applicable to tax qualified retirement plans.

Participants may retire early at age 55 with 10 years of service, or at age 62 with 5 years of service. However, pension benefits under the Pension Plan are reduced by 5/9ths of 1% for each of the first 60 months and by 5/18ths of 1% for each of the next 60 months by which commencement of benefits precedes the normal retirement date.

***Supplemental Plan***

The Supplemental Plan provides additional monthly benefits to certain executives who are affected by IRS and other plan-specific limits on Pension Plan Compensation. Messrs. Lepage and Coghlan earn benefits under the Supplemental Plan with respect to their compensation in excess of the statutory qualified Pension Plan limit and amounts attributable to deferred compensation that would otherwise have been treated as pensionable wages under the qualified Pension Plan.

Messrs. Lepage and Coghlan accrued an annual normal retirement benefit under the Supplemental Plan equal to the difference between (1) the Pension Plan formula set forth above based on Annual Compensation up to a plan-specified limit (\$364,460 for 2011, the last year of accruals under the Pension Plan), and (2) the Pension Plan formula above based on the qualified plan compensation limit (\$245,000 for 2011, the last year of accruals under the Pension Plan). The normal retirement age applicable to Messrs. Lepage and Coghlan under the Supplemental Plan is age 65.

Under the terms of the Supplemental Plan participants may retire early at age 55 with 10 years of service or at age 62 with 5 years of service. However, pension benefits under the Supplemental Plan are reduced for commencement prior to normal retirement age. Pension benefits are reduced by 5/9ths of 1% for each of the first 60 months and by 5/18ths of 1% for each of the next 60 months by which commencement of benefits precedes the normal retirement date.

Table of Contents**2013 PENSION BENEFITS**

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years of Credited Service (#)</b>	<b>Present Value of Accumulated Benefit \$(1)</b>	<b>Payments During Last Fiscal Year (\$)</b>
Dean P. Freeman	Pension Plan			
	Excess benefits under Supplemental Plan			
	<b>Total:</b>			
Mario Sanchez	Pension Plan			
	Excess benefits under Supplemental Plan			
	<b>Total:</b>			
Elie Melhem	Pension Plan	1	20,922	
	Excess benefits under Supplemental Plan			
	<b>Total:</b>		<b>20,922</b>	
Kenneth R. Lepage	Pension Plan	8.76	118,991	
	Excess benefits under Supplemental Plan	8.76	58,822	
	<b>Total:</b>		<b>177,813</b>	
David J. Coghlan	Pension Plan	4	100,815	

Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

Excess benefits under Supplemental Plan	4	59,754
<b>Total:</b>		<b>160,569</b>

(1)

The assumptions regarding the calculation of the present value of the accumulated benefit are as follows:

Measurement Date: December 31, 2013

Interest Rate for Present Value: 4.9% for the Pension Plan and 4.7% for the Supplemental Plan

Mortality (Pre Commencement): None

Mortality (Post Commencement): The prescribed mortality assumption under Section 430(h)(3)(A) of the Internal Revenue Code for ERISA cash funding purposes, using static tables with separate mortality rates for annuitants and non-annuitants.

Withdrawal and disability rates: None

Retirement rates: None prior to normal retirement age

Normal Retirement Age: Age 65

Accumulated benefit is calculated based on Benefit Service and Compensation as of December 31, 2011, reflecting the plan freeze as of December 31, 2011.

Table of Contents

All results shown are estimates only; actual benefits will be based on data, pay and years of service at time of retirement.

**Nonqualified Deferred Compensation**

Prior to 2012, we provided a Nonqualified Deferred Compensation Plan to all of our employees whose annual compensation was greater than \$90,000. Of the named executive officers, only Mr. Lepage has deferred compensation under the Nonqualified Deferred Compensation Plan. Under the Nonqualified Deferred Compensation Plan, participants were allowed to defer up to 100% of base salary and bonus. Participant deferrals earn returns based on the participant's selection from a list of investments that are generally the same as those provided in our 401(k) plan. The allocation of investments may be changed once each year. We did not make any matching contributions under the Nonqualified Deferred Compensation Plan.

Generally, account balances under the Nonqualified Deferred Compensation Plan may be paid at the earliest of termination of employment, normal retirement, early retirement, or becoming disabled as a lump sum or systematic installments over ten years. Account balances may be distributed prior to retirement only in the event of a financial hardship due to an unforeseeable emergency, but not in excess of the amount needed to meet the hardship. Distributions from the Nonqualified Deferred Compensation Plan to our named executive officers cannot be made until at least six months after termination of employment. Mr. Lepage did not receive any distributions, or make any withdrawals, from the Nonqualified Deferred Compensation Plan during 2013.

Under our Management Stock Purchase Plan, executives may elect to purchase restricted stock units, which vest in three annual installments beginning one year after the date of grant. However, shares are not delivered in settlement of the restricted stock units until the end of the deferral period elected by the named executive officer. Once vested, the restricted stock units constitute deferred compensation and are reported below as contributions by the named executive officer. Restricted stock units that are settled at the end of the deferral period are listed as distributions.

**2013 NONQUALIFIED DEFERRED COMPENSATION**

Name	Plan Name(1)	Executive	Company	Aggregate Earnings in Last Fiscal Year	Aggregate Withdrawals/ Distributions	Aggregate Balance at Last Fiscal Year End
		Contributions in Last Fiscal Year	Contributions in Last Fiscal Year			
		(\$)(2)(3)	(\$)	(\$)	(\$)(4)	(\$)(5)
Dean P. Freeman	MSPP					
Mario Sanchez	MSPP					
Elie Melhem	MSPP					
Kenneth R. Lepage	NDCP			48,196		230,767
	MSPP	120,663			142,710	238,138

Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

David J. Coghlan	MSPP	264,408	307,302	468,294
------------------	------	---------	---------	---------

---

- (1) "MSPP" refers to our Management Stock Purchase Plan, and "NDCP" refers to our Nonqualified Deferred Compensation Plan.
- (2) Based on the fair market value of our class A common stock on the vesting date of restricted stock units, the settlement of which have been deferred beyond 2013.
- (3) Includes amounts reflected in the "Stock Awards" column for Messrs. Lepage and Coghlan in the Summary Compensation Table for 2011 and 2012 in the amount of \$87,445 and \$239,777, respectively.
- (4) Based on the fair market value of our class A common stock on the date of delivery of shares upon settlement of restricted stock units during 2013.
- (5) Reflects the value of restricted stock units that were vested as of December 31, 2013 but not yet settled based on the closing price of our class A common stock on December 31, 2013 of \$61.87.

Table of Contents**Potential Payments Upon Termination or Change in Control**

None of our named executive officers has any arrangement that provides for severance payments. Under our 2004 Stock Incentive Plan, upon the termination of employment of a participant for any reason other than death or disability, all unvested stock options immediately terminate and unvested shares of restricted stock are automatically forfeited. If the participant's employment is terminated for cause, all stock options immediately terminate regardless of whether they are vested or unvested. If a participant's employment is terminated by reason of death or disability, all unvested stock options and shares of restricted stock immediately vest in full and the options may be exercised for a period of twelve months from the date of such termination of employment. Under our Management Stock Purchase Plan, upon the termination of employment of a participant for any reason including death or disability, all vested restricted stock units will be exchanged for shares of class A common stock and the participant will receive a cash payment equal to the lesser of (1) the original purchase price paid for the unvested restricted stock units plus interest, or (2) an amount equal to the number of unvested restricted stock units multiplied by the fair market value of our class A common stock on the termination date.

None of our named executive officers is entitled to payment of any benefits upon a change in control of the Company, except that our 2004 Stock Incentive Plan and Management Stock Purchase Plan provide that in connection with a change in control all unvested stock options, shares of restricted stock, and restricted stock units will become fully vested. As of December 31, 2013, the named executive officers held the following unvested stock options, shares of restricted stock, and restricted stock units that would have become fully vested upon a change in control.

<b>Name</b>	<b>Number of Shares Underlying Unvested Options (#)</b>	<b>Value of Unvested Options (\$)(1)</b>	<b>Number of Shares of Unvested Restricted Stock (#)</b>	<b>Value of Unvested Restricted Stock (\$)(2)</b>	<b>Number of Shares Underlying Unvested Restricted Stock Units (#)</b>	<b>Value of Unvested Restricted Stock Units (\$)(3)</b>
Dean P. Freeman	37,610	530,027	12,394	766,817		
Mario Sanchez	24,840	332,762	8,369	517,790	1,248	37,740
Elie Melhem	31,534	515,807	10,120	626,124	2,070	62,597
Kenneth R. Lepage	42,476	847,254	13,573	839,762	5,225	180,265
David J. Coghlan	178,413	3,369,266	53,096	3,285,050	12,662	435,334

(1) The value of unvested options was calculated by multiplying the number of shares underlying unvested options by \$61.87, the closing market price of our class A common stock on December 31, 2013, and then deducting the aggregate exercise price for these options.

(2) The value of unvested shares of restricted stock was calculated by multiplying the number of shares of unvested restricted stock by \$61.87, the closing market price of our class A common stock on December 31, 2013.

(3)

Edgar Filing: WATTS WATER TECHNOLOGIES INC - Form DEF 14A

The value of unvested restricted stock units was calculated by multiplying the number of shares underlying unvested restricted stock units by \$61.87, the closing market price of our class A common stock on December 31, 2013, and then deducting the aggregate purchase price paid for these restricted stock units.



Table of Contents

In the event their employment terminated as of December 31, 2013 in connection with a change in control of Watts Water, voluntary termination, death or disability, and involuntary termination, the named executive officers would not receive any additional value under the Pension Plan or the Supplemental Plan over and above the value of their accumulated benefit as a result of their termination.

**COMPENSATION COMMITTEE REPORT**

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis included in this proxy statement with management. Based on such review and discussion with management, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and in our Annual Report on Form 10-K for the year ended December 31, 2013.

*The Compensation Committee*  
Richard J. Cathcart, Chairman  
Robert L. Ayers  
W. Craig Kissel

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires certain officers, directors and persons who own more than 10% of our class A common stock to file with the SEC initial reports of ownership and changes in ownership of our stock and provide copies of such forms to us. Based on a review of the copies of such forms provided to us and written representations furnished to us, we believe that during the year ended December 31, 2013, all reports required by Section 16(a) to be filed by these persons were filed on a timely basis, except that a Form 4 reporting the exercise of a stock option by John K. McGillicuddy was not timely filed due to administrative error.

**AUDIT COMMITTEE REPORT**

The responsibilities of the Audit Committee are set forth in the charter of the Audit Committee. The Audit Committee, among other matters, is responsible for assisting the Board in its oversight of the integrity of our financial statements, our compliance with legal and regulatory requirements, the qualifications, independence and performance of our independent registered public accounting firm, and the performance of our internal audit function. This includes the appointment and evaluation of our independent registered public accounting firm, oversight of our systems of internal accounting and financial controls, a review of management's assessment and management of risk, a review of the annual independent audit of our consolidated financial statements and internal control over financial reporting, review of our Codes of Business Conduct and Ethics, the establishment of "whistle-blowing" procedures, and oversight of other compliance matters.

The Audit Committee reviewed and discussed our audited consolidated financial statements for the year ended December 31, 2013 with our management. The Audit Committee also reviewed and discussed our audited consolidated financial statements, the audit of our internal control over financial reporting and the matters required to be discussed with KPMG LLP, our independent registered public accounting firm, under Public Company Accounting Oversight Board standards. The Audit Committee received from KPMG the written disclosures and letter required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and discussed with KPMG the matters disclosed in this letter and their independence. The Audit Committee also considered whether KPMG's provision of other, non-audit related services to us is compatible with maintaining their independence.

Table of Contents

Based on the reviews and discussions referred to above, the Audit Committee recommended to our Board of Directors that our audited consolidated financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2013 and appointed KPMG as our independent registered public accounting firm for 2014.

*The Audit Committee*  
 Merilee Raines, Chairperson  
 Bernard Baert  
 Kennett F. Burnes  
 John K. McGillicuddy

**PROPOSAL 2**  
**RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Although Delaware law does not require that the appointment by the Audit Committee of our independent registered public accounting firm be approved each year by the stockholders, the members of the Audit Committee and the other members of the Board believe it is appropriate to submit the appointment of the independent registered public accounting firm to the stockholders for their ratification. The Audit Committee and the Board recommend that the stockholders ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2014. If the stockholders do not ratify the appointment of KPMG, the Audit Committee will reconsider its appointment.

We expect that representatives of KPMG will be present at the Annual Meeting. They will be given the opportunity to make a statement if they desire to do so and will also be available to respond to questions from stockholders.

During 2013, KPMG provided various audit, audit-related and tax services to us. The Audit Committee has adopted policies and procedures which require the Audit Committee to pre-approve all audit and non-audit services performed by KPMG in order to ensure that the provision of such services does not impair KPMG's independence. The term of any pre-approval is twelve months from the date of pre-approval, unless the Audit Committee specifically provides for a different period, and the Audit Committee sets specific limits on the amount of each such service we obtain from KPMG.

The aggregate fees billed for professional services by KPMG in 2013 and 2012 for audit, audit-related, tax and non-audit services were:

Type of Fees	2013	2012
<b>Audit Fees:</b>	\$ 3,110,155	\$ 3,401,343
<b>Audit-Related Fees:</b>	\$ 2,593	\$ 2,507
<b>Tax Fees:</b>	\$ 154,447	\$ 145,600
<b>All Other Fees:</b>		\$ 94,666
<b>Total:</b>	\$ 3,267,195	\$ 3,644,116

Audit fees primarily include fees we paid KPMG for professional services for the audit of our annual financial statements included in our annual report on Form 10-K, review of financial statements included in our quarterly reports on Form 10-Q, and for services that are normally provided in connection with statutory and regulatory filings or engagements, such as consents. Audit fees for 2013 and 2012 also include the audit of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. Audit-related fees were for work performed by KPMG to review management's allocation of costs among entities within our European reporting segment. Tax fees include fees for tax compliance and tax advice. All other fees for 2012 include consulting services provided by KPMG to assess our implementation of a global enterprise resource planning system.

Table of Contents

**The Audit Committee and the Board of Directors recommend that stockholders vote FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2014.**

**PROPOSAL 3  
ADVISORY VOTE ON EXECUTIVE COMPENSATION**

At our 2011 Annual Meeting, we held an advisory vote on how often we should submit our executive compensation program to an advisory vote of our stockholders, and 81% of the total votes cast on this proposal were cast in favor of holding the advisory vote on our executive compensation program every three years. In accordance with the stockholder voting results, our Board of Directors determined that stockholder advisory votes on executive compensation should occur every three years. Accordingly, at our 2014 Annual Meeting we are providing our stockholders the opportunity to vote to approve, on an advisory, non-binding basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC's rules. This proposal, which is commonly referred to as "say-on-pay," is required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which added Section 14A of the Exchange Act. The next required stockholder advisory votes on executive compensation and the frequency of the advisory vote on executive compensation will be held at our 2017 Annual Meeting.

We encourage you, before voting, to read the Compensation Discussion & Analysis section of this proxy statement and to review all compensation information in light of the information the Compensation Discussion & Analysis section provides about our alignment of pay with performance and compensation philosophy. We believe our compensation program reflects a strong pay for performance philosophy and has been effective at incenting the achievement of financial performance goals and the creation of stockholder value. Examples of practices and policies that we have implemented to ensure effective governance of our compensation plans include:

Our executives are subject to robust stock ownership guidelines.

Our executives are subject to a compensation recovery policy, or "claw back" policy, under which they may be required to repay unearned compensation in the event of a financial restatement due to fraud or misconduct.

The Compensation Committee has the authority to hire independent counsel and other advisors.

The Compensation Committee has conducted a review and assessment of risk as it relates to our compensation policies and practices.

Our Insider Trading Procedures prohibit hedging transactions, and no designated insiders may pledge Company securities as collateral unless approved in advance by the Compensation Committee.

None of our executive officers has an employment agreement with us or any arrangement or agreement that provides for severance payments.

We believe our compensation program and policies described in this proxy statement are aligned with stockholder interests and are worthy of stockholder support.

Our Board of Directors is asking stockholders to approve a non-binding advisory vote on the following resolution:

**RESOLVED:** That the compensation paid to our named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion is hereby approved.

Table of Contents

As an advisory vote, this proposal is not binding. The outcome of this advisory vote will not overrule any decision by the Company or the Board of Directors (or any committee thereof), create or imply any change to the fiduciary duties of the Company or the Board of Directors (or any committee thereof), or create or imply any additional fiduciary duties for the Company or the Board of Directors (or any committee thereof). However, our Compensation Committee and Board of Directors value the opinions expressed by our stockholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for named executive officers.

**The Board of Directors recommends that stockholders vote to approve the compensation of our named executive officers by voting "FOR" Proposal 3.**

**HOUSEHOLDING OF ANNUAL MEETING MATERIALS**

Some banks, brokers and other nominee record holders may be participating in the practice of "householding" proxy statements, annual reports and notices of Internet availability of proxy materials (if applicable). This means that only one copy of this proxy statement may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of any such document to you if you write or call us at the following address or telephone number: Watts Water Technologies, Inc., 815 Chestnut Street, North Andover, MA 01845, Attention: Kenneth Lepage, Secretary, (978) 688-1811, or you can request a copy of any such document by visiting the 2014 Annual Meeting page of our Internet website at <http://www.wattswater.com/2014annualmeeting>. If you want to receive separate copies of the annual report, proxy statement and Notice of Internet availability of proxy materials (if applicable) in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you should contact your bank, broker or other nominee record holder, or you may contact us at the above address and telephone number.

**STOCKHOLDER PROPOSALS**

In order for any stockholder proposal to be included in the proxy statement for our 2015 Annual Meeting, such proposal must be received at our principal executive offices, 815 Chestnut Street, North Andover, MA 01845, Attention: Kenneth Lepage, Secretary, not later than December 1, 2014 and must satisfy certain rules of the SEC.

Nominations and proposals of stockholders may also be submitted to us for consideration at the 2015 Annual Meeting if certain conditions set forth in our bylaws are satisfied, but will not be included in the proxy materials unless the conditions set forth in the preceding paragraph are satisfied. Such nominations (or other stockholder proposals) must be delivered to or mailed and received by us not more than 120 days nor less than 75 days prior to the anniversary date of the 2014 Annual Meeting, which dates will be January 14, 2015 and February 28, 2015, respectively. Stockholder proposals received by us outside of these dates will be considered untimely received for consideration at such Annual Meeting. If the date of the 2015 Annual Meeting is subsequently moved to a date more than seven days (in the case of director nominations) or ten days (in the case of other stockholder proposals) prior to the anniversary date of the 2014 Annual Meeting, we will publicly disclose such change, and nominations or other proposals to be considered at the 2015 Annual Meeting must be received by us not later than the 20th day after such disclosure (or, if disclosed more than 75 days prior to such anniversary date, the later of 20 days following such disclosure or 75 days before the date of the 2015 Annual Meeting, as rescheduled). To submit a nomination or other proposal, a stockholder should send the nominee's name or proposal and appropriate supporting information required by our bylaws to the attention of our Secretary at the address provided above. To be considered, all nominations or proposals must comply with the requirements of our by-laws, a copy of which may be obtained without charge by sending a request to Kenneth Lepage at our principal executive offices.













