

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 65555 / October 13, 2011

ACCOUNTING AND AUDITING ENFORCEMENT
Release No. 3328 / October 13, 2011

ADMINISTRATIVE PROCEEDING
File No. 3-14585

In the Matter of,
Watts Water Technologies, Inc. and
Leesen Chang,
Respondents.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 21C OF THE SECURITIES
EXCHANGE ACT OF 1934, MAKING
FINDINGS, AND IMPOSING CEASE-AND-
DESIST ORDERS AND CIVIL
PENALTIES**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Watts Water Technologies, Inc. and Leesen Chang (collectively “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (the “Offers”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over themselves and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Cease-and-Desist Orders and Civil Penalties (“Order”), as set forth below.

III.

On the basis of this Order and Respondents' Offers, the Commission finds¹ that:

Summary

1. This matter concerns violations of the books and records and internal controls provisions of the Foreign Corrupt Practices Act ("FCPA") by Watts Water Technologies, Inc ("Watts") and Leesen Chang ("Chang"). The violations took place at Watts Valve Changsha Co., Ltd., ("CWV") a wholly-owned Chinese subsidiary that Watts established in November 2005 to purchase the assets and businesses of Changsha Valve Works ("Changsha Valve"). CWV acquired Changsha Valve in April 2006 and Watts sold CWV in January 2010. CWV produced and supplied large valve products for infrastructure projects in China. Infrastructure projects in China are mostly developed, constructed, and owned by state-owned entities ("Project SOEs"). Project SOEs routinely retain state-owned design institutes to assist in the design and construction of their projects. Employees of CWV made improper payments to employees of certain design institutes. The purpose and effect of those payments was to influence the design institutes to recommend CWV valve products to Project SOEs and to create design specifications that favored CWV valve products. CWV's improper payments generated profits for Watts of more than \$2.7 million.

2. The payments were disguised as sales commissions in CWV's books and records, thereby causing Watts' books and records to be inaccurate. Watts failed to devise and maintain a system of internal accounting controls sufficient to prevent and detect the payments.

3. Respondent Chang, a U.S. citizen and the former interim general manager of CWV and vice president of sales for Watts' management subsidiary in China, approved many of the payments to the design institutes and knew or should have known that the payments were improperly recorded on Watts' books as commissions.

Respondents

4. **Watts Water Technologies, Inc.** is a Delaware corporation with its headquarters in North Andover, Massachusetts. Watts designs, manufactures, and sells water valves and related products through its wholly-owned subsidiary Watts Regulator Co., and maintains operations in North America, Europe, and China. Watts manages its Chinese subsidiaries through Watts (Shanghai) Management Co., Ltd. ("Watts China") headquartered in Shanghai. Watts' common stock is registered with the Commission pursuant to Section 12(b) of the Exchange Act and is listed on the New York Stock Exchange.

¹ The findings herein are made pursuant to the Respondent's Offers and are not binding on any other person or entity in this or any other proceeding.

5. **Leesen Chang**, age 51, is a U.S. citizen and was the vice president of sales at Watts China between November 2008 and June 2009. Chang also served as interim general manager of CWV from April to November 2008. Chang maintains a residence in Los Angeles, California but lives most of the year in China where he is currently employed.

Other Relevant Entities

6. **Watts Valve (Changsha) Co., Ltd.** (or as defined above, “CWV”) was a wholly foreign owned enterprise limited liability company (“WFOE”)² established by Watts in China for the purpose of purchasing Changsha Valve. CWV purchased Changsha Valve in April 2006 and operated as a valve manufacturing subsidiary of Watts until January 2010 when Watts sold the business to a privately-held Hong Kong company. Watts consolidated CWV’s books and records into its financial statements and CWV’s revenues accounted for approximately 1% of Watts’ gross revenues.

7. **Watts (Shanghai) Management Co., Ltd.** (or as defined above “Watts China”), is a Watts’ WFOE headquartered in Shanghai that manages the operations of Watts’ manufacturing subsidiaries located in China, including CWV during the period of Watts’ ownership. Watts China is solely a management subsidiary and had no ownership interest in CWV.

Facts

A. CWV’s Acquisition of Changsha Valve

8. CWV completed its acquisition of Changsha Valve in April 2006. Although Watts had significant operations in China prior to CWV’s purchase of Changsha Valve, CWV was Watts’ first experience with a Chinese subsidiary that conducted business predominantly with SOEs. Watts’ other Chinese subsidiaries are primarily engaged in the manufacture of products destined for sale or distribution to non-governmental entities in China, the U.S. and Europe.

9. Watts failed to implement adequate internal controls to address the potential FCPA problems posed by its ownership of CWV – a subsidiary that sold its products almost exclusively to SOEs. In addition, although Watts implemented an FCPA policy in October 2006, Watts failed to conduct adequate FCPA training for its employees in China until July 2009.

² The WFOE corporate structure under Chinese law permits foreign investors to establish and operate business enterprises in China that are capitalized exclusively with foreign funds. In addition, foreign investors who establish a WFOE in China can exercise control over the management and day-to-day operations of their WFOE.

B. CWV Made Improper Payments to Design Institutes

10. During the period of Watts' ownership, CWV sales personnel made payments to employees of certain design institutes to influence the design institutes to recommend CWV products to Project SOEs and to include specifications in their design proposals that would increase the likelihood that Project SOEs would select CWV products.

11. The improper payments were facilitated by a sales incentive policy created by Changsha Valve prior to its acquisition by CWV, and adopted by CWV in December 2006 (the "CWV Sales Policy"). The CWV Sales Policy provided, among other things, that all sales-related expenses, including travel, meals, entertainment, and payment of "consulting fees" to design institutes, would be borne by the CWV sales employees out of their commissions, which were equal to 7% to 7.5% of the contract price, depending on the size of the contract. The CWV Sales Policy further provided that sales personnel at CWV could utilize their commissions to make payments to design institutes of up to 3% of the total contract amount. As a result, the payments to design institutes were improperly recorded in Watts' books and records as sales commissions. The CWV Sales Policy was never translated into English or submitted to Watts' management in the U.S.

C. Chang's Role in the Violations

12. As vice president of sales at Watts China and interim general manager of CWV, Chang was among those responsible for maintaining and enforcing Watts' policies and procedures, including the company's general prohibition against improper payments to SOEs. Nonetheless, Chang approved commission payments to CWV sales personnel that he knew included payments to design institutes. In fact, Chang signed commission payment approval requests that explicitly itemized payments of 3% to design institutes. Chang also knew that Watts' management in the U.S. was unaware of the CWV Sales Policy that facilitated the improper payments and he resisted at least one attempt by several of his colleagues at Watts China to have the policy translated and submitted to Watts' senior management for approval. In an email discussing this issue, Chang stated that "China sale policy should stay in control within China regional operation" because involving Watts' management in the U.S. might cause CWV to "lose many flexibility [sic] on working with sale, sale agent and end buyer." Accordingly, Chang knew or should have known that, pursuant to the CWV Sales Policy, payments to design institutes were recorded in Watts' books and records as sales commissions. In addition, Chang's resistance to efforts to have the Sales Policy translated and submitted to Watts' management in the U.S. was a cause of Watts' internal control violations, since it prevented the parent company from discovering the improper payments.

D. Discovery, Internal Investigation and Self Reporting

13. In March 2009, Watts' General Counsel learned of a Commission enforcement action against another company that involved unlawful payments to employees of Chinese design institutes. Because Watts' senior management in the U.S. knew that CWV's customers included Project SOEs, Watts implemented anti-corruption and FCPA training for its Chinese subsidiaries. This training took place starting in the Spring of 2009. In July 2009, following FCPA training sessions for certain management of Watts China, Watts China's in-house

corporate counsel became aware of potential FCPA violations at CWV through conversations with CWV sales personnel who were participating in the training. Shortly thereafter, the in-house lawyer notified Watts' management in the U.S. of the potential violations.

14. On July 21, 2009, Watts retained outside counsel to conduct an internal investigation of CWV's sales practices. Watts' outside counsel subsequently retained forensic accountants to assist with the investigation.

15. On August 6, 2009, Watts self-reported its internal investigation to the staff. As the internal investigation progressed, Watts shared the results of the investigation with its outside auditors and the staff through periodic reports, and undertook the remedial measures described below.

E. Watts' Remedial Measures

16. Since July 2009 when the conduct was discovered, Watts has taken the following remedial steps. At the start of its internal investigation, Watts directed all of its sales and finance employees at CWV and Watts China to stop all payments of any kind to SOEs. While the internal investigation was ongoing, Watts eliminated commission-based compensation at CWV to ensure that no further improper payments were made by CWV sales personnel and disclosed the internal investigation in its August 7, 2009 Form 10-Q. In addition, Watts retained additional outside counsel to draft and implement enhanced anti-corruption policies and procedures, including an enhanced Anti-Bribery Policy, a Business Courtesy Policy designed to ensure that any payments made to customers comply with the FCPA, an enhanced Travel and Entertainment Expense Reimbursement Policy for its Chinese subsidiaries, and enhanced intermediary due diligence procedures.

17. In conjunction with its internal investigation, Watts conducted a worldwide anti-corruption audit. As part of its anti-corruption audit, Watts conducted additional FCPA and anti-corruption training for Watts China and the company's locations in Europe, conducted a risk assessment and anti-corruption compliance review of Watts' international operations in Europe, China, and any U.S. location with international sales, and conducted anti-corruption testing at seven international Watts sites, including each of the manufacturing and sales locations in China. In an effort to ensure FCPA compliance and training going forward, Watts contracted with an online global training organization to provide regular anti-corruption training and hired a Director of Legal Compliance, a new position that reports to Watts' General Counsel regarding issues under the Code of Conduct and Anti-Bribery Policy.

Legal Standards and Violations

A. Standard for the Issuance of a Cease-and Desist Order

18. Under Section 21C(a) of the Exchange Act, the Commission may impose a cease-and-desist order upon any person who is violating, has violated, or is about to violate any provision of the Exchange Act or any rule or regulation thereunder, and upon any other person that is, was, or would be a cause of the violation, due to an act or omission the person knew or should have known would contribute to such violation.

B. The Requirements of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act and Rule 13b2-1 thereunder

19. The FCPA, enacted in 1977, added Section 13(b)(2)(A) to the Exchange Act to require public companies to make and keep books, records, and accounts, which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the issuer. 15 U.S.C. § 78m(b)(2)(A).

20. The FCPA also added Section 13(b)(2)(B) to the Exchange Act to require public companies to, among other things, devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that transactions: (i) are executed in accordance with management's general or specific authorization; and (ii) are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles ("GAAP") or any other criteria applicable to such statements, and to maintain accountability for assets. 15 U.S.C. § 78m(b)(2)(B).

21. Rule 13b2-1 prohibits a person from, directly or indirectly, falsifying or causing to be falsified any book, record, or account subject to Section 13(b)(2)(A) of the Exchange Act. 17 CFR § 240.13b2-1.

C. Watts Violated Sections 13(b)(2)(A) and 13(b)(2)(B)

22. Watts' subsidiary, CWV, made improper payments to design institutes. The payments were improperly recorded in CWV's books and records as sales commissions. CWV's books and records were consolidated into Watts' books and records. Accordingly, as a result of the misconduct of its subsidiary, Watts failed to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect its transactions and the disposition of its assets as required by Section 13(b)(2)(A) of the Exchange Act.

23. As evidenced by the extent and duration of the improper payments and the fact that Watts management was unaware of the CWV Sales Policy that facilitated the improper payments, Watts failed to devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that it maintained accountability for its assets, and that its transactions were executed in accordance with management's authorization and recorded as necessary to permit the preparation of financial statements in conformity with GAAP. Watts also failed to implement an FCPA compliance and training program commensurate with the extent of its international operations and its ownership of CWV, a subsidiary that sold its products almost exclusively to SOEs. Accordingly, Watts violated Section 13(b)(2)(B) of the Exchange Act.

D. Chang Violated Rule 13b2-1 and Was a Cause of Watts' Violations of Sections 13(b)(2)(A) and 13(b)(2)(B)

24. Chang knew that CWV sales personnel made payments to design institutes out of their sales commissions pursuant to the CWV Sales Policy and he signed commission payment approval requests that explicitly itemized payments of 3% to design institutes. Under these

circumstances, Chang knew or should have known that the sales commission payments he approved contained payments to design institutes that were improperly recorded in Watts' books and records as sales commissions. Accordingly, Chang was a cause of Watts' failure to make and keep books, records, and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company as required by Section 13(b)(2)(A) of the Exchange Act. By this same conduct, Chang was a cause of Watts' failure to maintain accurate books and records and thereby violated Exchange Act Rule 13b2-1.

25. As described more fully above, Chang knew that Watts' senior management was unaware of the CWV Sales Policy that facilitated the falsifications of its books and records and he resisted attempts by his colleagues at Watts China to have the CWV Sales Policy translated and submitted to Watts' senior management for approval. By these actions and others described herein, Chang was a cause of Watts' failure to devise and maintain a sufficient system of internal accounting controls as required by Section 13(b)(2)(B) of the Exchange Act.

Commission Consideration of Watts' Remedial Efforts and Cooperation

26. In determining to accept Watts' Offer of Settlement, the Commission considered remedial acts promptly undertaken by Watts and the cooperation afforded the staff.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents Offers of Settlement.

Accordingly, it is hereby ORDERED that:

- A. Pursuant to Section 21C of the Exchange Act:
 - 1. Respondents Watts and Chang cease and desist from committing or causing any violations and any future violations of Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act;
 - 2. Respondent Chang cease and desist from committing or causing any violations and any future violations of Exchange Act Rule 13b2-1.

- B. Within fourteen days of the entry of this Order:
 - 1. Respondent Watts shall pay to the United States Treasury disgorgement of \$2,755,815, prejudgment interest of \$820,791 and a civil money penalty of \$200,000; and
 - 2. Respondent Chang shall pay to the United States Treasury a civil money penalty of \$25,000.

If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 and 31 U.S.C. § 3717. Payment shall be: (A) made by United States postal money order, certified check, bank cashier's check, or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, 100 F St., NE, Stop 6042, Washington, DC 20549; and (D) submitted under cover of a letter that identifies the payer as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Antonia Chion, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549.

- C. Respondent Watts acknowledges that the Commission is not imposing a civil penalty in excess of \$200,000 based upon its cooperation in a Commission investigation. If at any time following the entry of the Order, the Division of Enforcement ("Division") obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission or in a related proceeding, the Division may, at its sole discretion and without prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay an additional civil penalty. Respondent may not, by way of defense to any resulting administrative proceeding: (1) contest the findings in the Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Elizabeth M. Murphy
Secretary