

IN THE SUPERIOR COURT FOR THE DISTRICT OF COLUMBIA  
Civil Division

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

Plaintiff,

v.

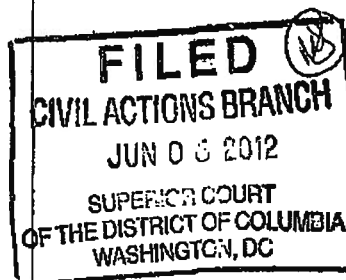
SIDLEY AUSTIN, LLP  
1501 K Street, NW  
Washington, DC 20005

SERVE:

C T Corporation System  
1015 15<sup>th</sup> Street, NW  
Suite 1000  
Washington DC, 20005

Defendant.

Case No.: 0004847-12



COMPLAINT

*COMES NOW*, Plaintiff, by and through undersigned counsel, and respectfully submits this Complaint, and for this cause of action states:

JURISDICTION

1. This Court has personal jurisdiction over the Defendant, Sidley Austin, LLP ("Sidley") because Sidley resides in the District of Columbia, and this Court has subject matter jurisdiction pursuant to D.C. Code Ann. § 11-921.
2. Venue in this Court is proper because, *inter alia*, Sidley is a resident of the District of Columbia, and continues to maintain a law office and practice law in this jurisdiction.

3. Venue is also proper in this Court because a portion of the results of Sidley's negligence and a substantial portion of the damages that Sidley caused were ultimately suffered in the District of Columbia.

#### PARTIES

4. Watts Water Technologies, Inc. (hereinafter referred to as "Watts") is a Delaware corporation with its headquarters in North Andover, Massachusetts. Watts's subsidiaries are engaged in the business of designing, manufacturing and selling water valves and related products in North America, Europe and Asia.
5. Prior to a corporate name change in 2003, Watts was known as Watts Industries, Inc.
6. Sidley is a United States-based global law firm with approximately 1700 lawyers in 18 offices. Sidley is the successor-in-interest to Sidley, Austin, Brown and Wood.
7. Sidley claims that, from this District of Columbia Office, "Our lawyers ... help our clients navigate U.S. and international regulatory law and public policies that affect the way business is conducted both here and around the globe."
8. Sidley is governed by a Management Committee, at least one member of which is based in the District of Columbia Office.

#### INTRODUCTION

9. Watts's affiliated companies have been designing and manufacturing water valves and other water-related products for nearly 140 years, and Watts now has substantial business interests across the globe.
10. When Watts was considering the acquisition of a Chinese company, Watts hired Sidley as its attorneys to perform legal due diligence with respect to the potential acquisition so

that Watts could evaluate the legal risks associated with the acquisition and decide whether to proceed.

11. Sidley's legal representation required its attorneys to thoroughly investigate the target company and identify all potential legal risks and liabilities that Watts might be exposed to or acquire if it purchased the target company.
12. Sidley was aware that these potential liabilities and legal risks could include possible violations of the Foreign Corrupt Practices Act of 1977, 15 U.S.C. §§ 78dd-1, *et seq.* ("FCPA").
13. In the course of its legal due diligence, Sidley uncovered a document demonstrating that the target company had a written "kickback" policy, by which the company paid Chinese government officials or officials of state-owned entities (such as Chinese "design institutes") in order to secure government contracts for the company.
14. This policy violates the FCPA, and the Sidley partner responsible for the due diligence has subsequently admitted that this document was a "red flag."
15. Undoubtedly, Sidley should have disclosed the kickback policy and the document to Watts.
16. Nonetheless, despite obviously discovering this written policy in its legal due diligence, Sidley never disclosed its existence to Watts in any of Sidley's legal due diligence reports or in any other communication.
17. As a result of Sidley's failure, Watts was unaware of the kickback policy.
18. Watts paid millions of dollars to purchase the target company, and Watts operated it for several years.

19. The undisclosed FCPA violations ultimately required an expensive internal investigation and audit by outside attorneys.
20. After Watts self-reported the violations to the Securities and Exchange Commission ("SEC") and the Department of Justice ("DOJ"), both agencies initiated investigations.
21. Watts paid millions of dollars in disgorged profits, fines and other penalties to the SEC, millions of dollars in attorneys' fees and related costs, and Watts was also forced to sell the company for a substantial loss.
22. Sidley is liable to Watts for these injuries and damages.

**BACKGROUND**  
**WATT'S INTERNATIONAL BUSINESS EXPANSION**

23. Watts's affiliated companies have designed and manufactured water valves and related products since 1874.
24. Beginning in 1987 and continuing through the present, Watts has expanded its operations through a series of corporate acquisitions.
25. Today, Watts is a publicly-traded company listed on the New York Stock Exchange. It has approximately 70 facilities worldwide with approximately 5,900 employees, and it enjoys more than \$ 1 billion in annual sales. Watts services the plumbing and heating and water-quality markets. Its products range from simple under-sink water connectors to large diameter "butterfly valves" used in municipal pipelines.
26. By 2002, Watts had substantial operations in China, including ownership of several corporate subsidiaries. These subsidiaries were owned by Watts and managed by Watts (Shanghai) Management Co., Ltd. ("Watts China"), a management subsidiary owned by Watts.

27. Until 2005, Watts's China operations were devoted exclusively to the manufacturing of Watts's products.
28. In or around 2005, Watts contemplated expanding its China operations beyond manufacturing, to include providing contracting and other water-related services in the growing Chinese infrastructure market. This contemplated new line of business would require Watts, through its subsidiaries, to bid on projects and enter into contracts, including contracts with Chinese government-owned entities.
29. Because it was relatively unfamiliar with Chinese law regarding corporate mergers, Watts ensured that it had a "gold-plated" law firm to provide counsel and to assist Watts in ensuring that all of its new business dealings complied with the laws of both the United States and China.
30. Watts was specifically concerned with ensuring that it complied with the Foreign Corrupt Practices Act of 1977, 15 U.S.C. §§ 78dd-1, *et seq.* ("FCPA").
31. For several years prior to 2005, Watts had been working with its attorneys at Sidley's predecessor, Sidley, Austin, Brown & Wood.
32. Specifically, on June 7, 2002, Watts hired Sidley, Austin, Brown & Wood (now Sidley) as Watts's legal counsel.
33. Sidley agreed to provide legal counsel to Watts with respect to Watts's Chinese "operations/investments and related matters." A copy of the June 7, 2002 engagement letter is attached hereto as Exhibit A.
34. At the time of this engagement, Sidley held itself out to Watts and to the public as capable of providing expert legal services to American companies that did business in China.

35. According to Sidley, its expertise specifically included conducting legal due diligence with respect to the FCPA and other anti-corruption issues in connection with mergers, acquisitions and joint ventures involving international sales and business operations.
36. Sidley served as Watts's attorneys from the time of the engagement in 2002 until at least June 11, 2009.

**IN PREPARATION FOR WATTS'S ACQUISITION OF CHANGSHA VALVE, SIDLEY PERFORMED DUE DILIGENCE ON WATTS'S BEHALF BUT FAILED TO NOTIFY WATTS OF CHANGSHA VALVE'S ILLEGAL WRITTEN KICK-BACK POLICY**

37. By November 11, 2004, Watts was contemplating the acquisition of a Chinese company called Changsha Valve Works ("Changsha Valve").
38. On or around November 11, 2004, Watts instructed Sidley, and Sidley agreed, to conduct legal due diligence on Watts's behalf with respect to the company.
39. Among other things, this legal due diligence was to include analyzing potential FCPA violations at Changsha Valve and identifying any issues to Watts to ensure that Watts would not be exposed to potential FCPA liability were it to proceed with the acquisition.
40. Sidley conducted legal due diligence in advance of the acquisition, and Watts paid Sidley more than \$200,000 for this legal work.
41. During Sidley's legal due diligence examination, Changsha Valve produced to Sidley a document demonstrating that Changsha Valve had a written policy that provided for its sales associates to pay "kickbacks" to certain Chinese government officials, or officials of state-owned entities, to secure the award of contracts to Changsha Valve (the "Written Kickback Policy"). A copy of this Written Kickback Policy is attached hereto as Exhibit B. A true and correct translation of this document is attached hereto as Exhibit C.
42. On November 24, 2004, in the course of its representation of Watts, Sidley provided Watts a Preliminary Due Diligence Report.

43. Further, in the course of its representation of Watts, Sidley provided Watts with a full Due Diligence Report, dated July 20, 2005.
44. Sidley subsequently provided updated or supplemental legal due diligence information to Watts by email on several occasions, including July 26, 2005.
45. According to Sidley's common practice and policy, these due diligence reports should have included all "significant issues" with respect to the acquisition.
46. In its final Due Diligence Report, Sidley represented to Watts that it had reviewed all of the documents provided by Changsha Valve, and that Sidley's report reflected this comprehensive review.
47. Despite the fact that Changsha Valve provided Sidley with a copy of the Written Kickback Policy, Sidley never mentioned the Kickback Policy in any due diligence report, and did not otherwise inform Watts of the existence of this illegal policy.
48. In fact, on September 5, 2005, in the course of its representation and due diligence on Watt's behalf, Sidley provided to Watts a detailed analysis of the contracts that Changsha Valve had with its sales agents.
49. Even though the Written Kickback Policy was part and parcel of these sales agent contracts, Sidley's description of the contracts did not include any information about the Written Kickback Policy or any illegal payments that may have been made thereunder to Chinese government officials or officials of state-owned entities.
50. Zhengyu Tang, the Sidley partner who was responsible for managing Sidley's representation and due diligence services for Watts, has subsequently admitted that this Written Kickback Policy constituted a "red flag" regarding the payment of "kickbacks" or "rebates" to Chinese government officials or officials of state-owned entities.

51. Tang also acknowledged that a potential FCPA violation is a "major issue" and that such an issue should be disclosed to the client.
52. Payments made to foreign government officials or officials of state-owned entities pursuant to the Written Kickback Policy would have violated the FCPA, and Sidley should have disclosed the Written Kickback Policy and potential FCPA violations to Watts.
53. Sidley never mentioned to Watts the illegal Written Kickback Policy that was in Sidley's files.

**IN RELIANCE ON SIDLEY'S ERRONEOUS DUE DILIGENCE,  
WATTS PURCHASED CHANGSHA VALVE**

54. Watts reviewed Sidley's Due Diligence Reports and consulted with Sidley on numerous other occasions to gain the full benefit of Sidley's legal advice and due diligence examination of Changsha Valve.
55. These reports and Sidley's related due diligence communications constituted Sidley's legal advice and counsel to Watts with respect to legal due diligence in preparation for Watts's acquisition of Changsha Valve.
56. Based upon Sidley's Due Diligence Reports and Sidley's other communications relating to its examination of Changsha Valve, Watts entered into a purchase agreement on October 26, 2005, in which it agreed to purchase Changsha Valve's business for approximately \$9 million.
57. The parties to the agreement ultimately closed on the transaction in April of 2006.
58. If Sidley had informed Watts of Changsha Valve's illegal Written Kickback Policy (a copy of which was in Sidley's files), Watts would not have entered the October 26, 2005 Purchase Agreement for Changsha Valve.



59. After the acquisition, Sidley continued to provide legal advice to Watts on various issues with respect to Watts's China operations until at least June 11, 2009.

**AFTER AN EXTENSIVE INVESTIGATION BY OUTSIDE COUNSEL, WATTS DISCOVERED THE WRITTEN KICKBACK POLICY**

60. After the acquisition, Changsha Valve's business was owned and conducted by Watts's wholly-owned subsidiary, Watts Valve (Changsha) Co., Ltd. ("CWV").
61. In or around March 2009, Watts discovered through public reports that another company had violated the FCPA in its dealings with certain government-owned "design institutes" in China.
62. Specifically, this company had bribed these government officials to specify the use of the company's products within certain project specifications.
63. These specifications, in turn, steered the award of the contracts to the company.
64. Watts was entirely unaware of any such payments at its new subsidiary, CWV, or whether CWV was involved with similar Chinese government-owned design institutes.
65. During the spring of 2009, Watts conducted an anti-corruption and FCPA-compliance training program for certain of Watts's managers in China.
66. Certain CWV sales personnel attended the training session in the spring of 2009.
67. In July 2009, these employees reported to Watts's management in China that there may be FCPA violations at CWV based upon the Written Kickback Policy—the same policy that Sidley received during its legal due diligence, but did not report to Watts.
68. In July 2009, Watts retained Paul Hastings LLP ("Paul Hastings"), another U.S.-based international law firm with offices around the world, to conduct an investigation.

69. Paul Hastings attorneys and outside forensic accountants examined Watts's business operations in China, including conducting interviews of CWV employees and additional legal due diligence.
70. During the course of the investigation, Paul Hastings acquired the Changsha Valve legal due diligence files from Sidley.
71. Paul Hastings then discovered the Written Kickback Policy in Sidley's files.

**WATTS SELF-REPORTED ITS UNINTENTIONAL FCPA VIOLATIONS TO THE SEC  
AND THE SEC ULTIMATELY IMPOSED A CEASE-AND-DESIST ORDER AND  
CIVIL PENALTIES**

72. In August 2009, Paul Hastings notified Watts of the Written Kickback Policy, and the likelihood that payments made to Chinese government officials or officials of state-owned entities pursuant to the policy violated the FCPA.
73. Based on Paul Hastings's early assessment of the Written Kickback Policy, Watts decided to report its potential and unintentional FCPA violations to the SEC and DOJ in order to obtain the benefits of self-disclosure and early reporting.
74. Watts self-reported these violations to the SEC and DOJ on August 6, 2009, and engaged in a variety of other remedial actions to address FCPA issues.
75. Over the next several months, Paul Hastings continued its investigation and its communications with the SEC on Watt's behalf.
76. During its investigation, on December 16, 2009, Paul Hastings interviewed Mr. Tang, the Sidley attorney in charge of Sidley's representation of Watts.
77. During the interview, Mr. Tang admitted that the Written Kickback Policy was a "red flag" indicative of FCPA violations.

78. He also admitted that Sidley's policy was to include all "significant issues" in its Due Diligence reports, and that if an FCPA or other major issue was discovered, then it should have been disclosed to the client.
79. Watts continued to cooperate with the SEC and DOJ in their investigations.
80. The SEC and DOJ investigated Watts's potential violations through their Washington, D.C. offices, and during the course of the investigation, Watts's representatives communicated and met with the SEC and DOJ in Washington, D.C.
81. On October 13, 2011, the SEC entered an order entitled "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" (the "SEC Order"). A copy of the SEC Order is attached hereto as Exhibit D.
82. As a result of the SEC Order, Watts was required to disgorge profits, pay pre-judgment interest and pay a civil penalty.
83. Watts paid these penalties to the SEC in Washington, D.C.
84. In or around January 2010, during the SEC investigation, Watts was also forced to sell CWV at a substantial loss.

#### **COUNT I: PROFESSIONAL NEGLIGENCE**

85. Watts incorporates paragraphs 1-83 as if set forth here verbatim.
86. Sidley entered into a long term attorney-client relationship with Watts, and acted as Watts's Counsel.
87. As a result of this attorney-client relationship, Sidley owed Watts a duty to represent Watts and protect Watts's interests using a reasonable degree of knowledge, care and skill.

88. Among other things, in the course of the legal due diligence examination of Changsha Valve, the applicable standard of care required Sidley to (a) review the documents in Sidley's own files, (b) to disclose to Watts any significant issues, including FCPA violations, that were discovered, and (c) to ensure that the statements it made to Watts in the course of its legal due diligence reporting were complete and truthful.
89. Sidley's failure to disclose to Watts the Written Kickback Policy that was sitting in Sidley's own files violated its own policies, fell well below the applicable standard of care, and constitutes actionable professional negligence and malpractice.
90. Sidley's negligence and violation of the standard of care proximately caused Watts to suffer substantial injuries.
91. By way of example, as a result of Sidley's negligence, Watt's purchased a company whose core business operations were built on an express system of paying kickbacks to government officials (including design institutes) to obtain or maintain business, which is a patent FCPA violation.
92. Watts was forced to conduct a detailed investigation, to endure and pay a substantial judgment to the SEC, and to incur substantial professional and legal fees.
93. Watts was also forced to sell CWV at a substantial loss.
94. All of these damages and others were the proximate result of Sidley's negligence.
95. Sidley is liable to Watts for all of the damages proximately caused by Sidley's negligence in an amount to be determined at trial.

#### **COUNT II: BREACH OF CONTRACT**

96. Watts incorporates paragraphs 1-95 as if set forth here verbatim.
97. Watts and Sidley entered into an agreement for Sidley to provide legal services to Watts.

98. This agreement specifically included Sidley's agreement to conduct legal due diligence for Watts in connection with Watts's assessment of its potential acquisition of Changsha Valve.
99. The agreement required Sidley to apply the skill and expertise of a reasonable lawyer in fulfilling its obligations under the agreement, including its obligations to perform legal due diligence in connection with Watts's assessment of its potential acquisition of Changsha Valve.
100. The agreement also required Sidley to review the documents that it acquired from Changsha Valve and provide to Watts an accurate report on the contents of those documents.
101. As Watt's long-time attorneys, Sidley was well aware that Watts was relying on Sidley's performance of its obligation under the parties' agreement in order to assist Watts in analyzing and ultimately deciding to purchase Changsha Valve.
102. The parties knew and understood that Watts was particularly reliant on Sidley's contractual performance (a) because of the geographic distance between Watts's management and the operations in China, (b) because Watts's management team did not speak or read Chinese and thus were faced with a substantial language barrier in the communications and documents related to Changsha Valve, and (c) because of Sidley's professed expertise in Chinese law and FCPA due diligence.
103. Watts fully performed under the agreement, and paid Sidley for Sidley's services.
104. But Sidley breached its agreement with Watts by, *inter alia*, (a) failing to apply the skill and expertise of reasonable attorneys, and (b) failing to review the documents that

Changsha Valve provided to Sidley and/or failing to accurately report to Watts on the contents of those documents.

105. As a result of Sidley's breaches, Watts suffered significant injuries.
106. These injuries include, but are not limited to, the payments that Watts was forced to make to the SEC, the legal fees and expenses that Watts incurred in investigating and remedying the FCPA violations, and the losses that Watts suffered when it was forced to sell CWV at a substantial loss.
107. Sidley is liable to Watts for all of the legally-allowable damages that resulted from Sidley's breach of contract in an amount to be determined at trial.

### **COUNT III: NEGLIGENT MISREPRESENTATION**

108. Watts incorporates paragraphs 1-107 as if set forth here verbatim.
109. During the course of its attorney-client relationship with Watts, Sidley was aware that Watts was relying on Sidley's statements regarding legal due diligence in order for Watts to make determinations about whether to purchase Changsha Valve.
110. Sidley made numerous statements to Watts, including in its official Due Diligence Reports, that Sidley had conducted an extensive investigation of Changsha Valve, and that Sidley had informed Watts of all of the significant issues that resulted from Sidley's investigation of Changsha Valve.
111. By way of example, Sidley's official Due Diligence reports contained representations about the types of contracts that Changsha Valve entered with its clients and employees.
112. Sidley stated on multiple occasions in its Preliminary and Final Due Diligence Reports that Changsha Valve's contracts contained only "standard boiler-plate language" that was to be expected in contracts of that type.

113. As a further example, in August of 2005, Sidley sent to Watts a detailed analysis of the contracts between Changsha Valve and its sales agents.
114. This description stated that the sales agents were paid standard commissions, and Sidley's description of the payments utterly failed to disclose that a portion of their commissions were actually paid to Chinese government officials or officials of state-owned entities, including design institutes, as an illegal kickback pursuant to the Written Kickback Policy.
115. At the time it made these representations, Sidley had in fact already discovered the existence of the Written Kickback Policy.
116. But Sidley did not disclose that fact to Watts at any time.
117. The existence of this Written Kickback Policy rendered Sidley's statements regarding the outcome of its legal due diligence investigation and other express representations false.
118. Sidley negligently made these false statements to Watts regarding the Changsha Valve legal due diligence.
119. In addition, Sidley had a duty to disclose to Watts the existence of the Written Kickback Policy and Sidley breached its duties to Watts by failing to do so.
120. As Watts's long-time attorneys, Sidley was well aware that Watts was relying on Sidley to provide complete and accurate statements regarding its legal due diligence in order to assist Watts in analyzing and ultimately deciding to purchase Changsha Valve.
121. Watts was particularly reliant on Sidley (a) because of the geographic distance between Watts's management and the operations in China, (b) because Watts's management team did not speak or read Chinese and thus were faced with a substantial language barrier in

the communications and documents related to Changsha Valve, and (c) because of Sidley's professed expertise in Chinese law and FCPA due diligence.

122. Watts reasonably relied on Sidley's negligent misrepresentations by agreeing to purchase Changsha Valve according to the terms of the October 26, 2005 purchase agreement.
123. As a proximate result of Sidley's misrepresentations and Watts's reasonable reliance, Watts suffered significant injuries.
124. These injuries include, but are not limited to, the payments that Watts was forced to make to the SEC, the legal fees and expenses that Watts incurred in investigating and remedying the FCPA violations, and the losses that Watts suffered when it was forced to sell the company at a substantial loss.
125. Sidley is liable to Watts for all of its damages that proximately resulted from Sidley's negligent misrepresentations in an amount to be determined at trial.

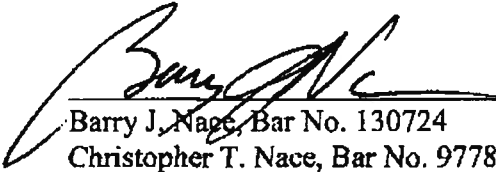


**WHEREFORE**, Plaintiff Watts Water Technologies, Inc. demands judgment against Defendant on all Counts in an amount to be determined at trial but believed to be in excess of one hundred thousand dollars (\$100,000.00) in damages, plus costs of this suit and attorneys' fees, and such other and further relief as this Court deems just and proper.

Dated: June 6, 2012

Respectfully submitted,

PAULSON & NACE, PLLC



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**Jury Demand**

Plaintiff, by and through the undersigned counsel and pursuant to Rule 38 of the District of Columbia Rules of Civil Procedure, hereby demands trial by jury of all issues in this matter.



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Barry J. Nace

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BEIJING (X)  
CHICAGO (X)  
DALLAS (X)  
GENEVA (X)  
HONG KONG (X)  
LONDON (X)

**SIDLEY AUSTIN BROWN & WOOD**

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WASHINGTON, D.C. (X)

WRITER'S EXTENSION NUMBER  
218

WRITER'S E-MAIL ADDRESS  
xytang@sidley.com

**Fax/E-mail Message**

To : Mr. Robert T. McLaurin  
Watts Industries, Inc.  
Cc : Mr. William C McCartney  
From : Tang Zhengyu  
Sidley Austin Brown & Wood (Shanghai)  
Date : June 7, 2002  
Subject : Engagement Letter for Watts Industries, Inc

Our Ref:

No. of pages: 4 (including this page)

Dear Bob:

We are pleased that you wish to retain Sidley Austin Brown & Wood to serve as your counsel on Watts Industries, Inc's PRC investments/operations and related matters, subject to clearance/waiver of conflicts if any.

For over 100 years, our Firm commenced its relationship with each new client without formality. The Appellate Divisions of the Supreme Court of the State of New York, however, recently adopted rules requiring the use of engagement letters in many situations. Such rules reflect how the practice of law and the professional standards governing it have become increasingly complex. As a result, we, like other large firms, now follow the practice of entering into engagement letters with our clients. (As you may know, investment banking, consulting, accounting and other professional service firms adopted this practice years ahead of law firms.)

Although we have accepted this measure of formality with reluctance, we have nevertheless come to appreciate that it is preferable to have these matters understood and agreed to by our clients at the commencement of our representation. Accordingly, we submit for your approval the following provisions governing our engagement. If you are in agreement, please sign the enclosed copy of this letter in the space provided below. If you have any questions about these provisions, or if you would like to discuss possible modifications, do not hesitate to call. Again, we are pleased to have the opportunity to serve you.

This transmission (the fax message and its attachments) is intended solely for the addressee(s) hereof, and may be confidential and subject to lawyer-client privilege. If you are not the named addressee(s), or if this transmission has been addressed to you in error, you must not read, disclose, reproduce, distribute, or otherwise use this transmission. Delivery of this transmission to any person other than the intended recipient(s) does not waive privilege or confidentiality. If you have received this transmission in error, please alert the sender by telephone. We also request that you immediately destroy this transmission.

Client and Scope of Representation Our client in this matter will be Watts Industries, Inc (the "Company") and we will advise the Company in connection with, and the scope of our engagement and duties to the Company shall relate to the Company's PRC operations/investments and related matters. Specific aspects of the work may change in the course of implementation of each project depending on the actual circumstances and the Company's needs and instructions.

1. Term of Engagement. Either of us may terminate the engagement at any time for any reason by written notice, subject on our part to applicable rules of professional responsibility. In the event that we terminate the engagement, we will take such steps as are reasonably practicable to protect your interests in the above matter.

Unless previously terminated, Sidley Austin Brown & Wood's representation of the Company will terminate upon our sending you our final statement for services rendered. Following such termination, any otherwise non-public information you have supplied to Sidley Austin Brown & Wood which is retained by us will be kept confidential in accordance with applicable rules of professional responsibility. If, upon such termination, you wish to have any documents delivered to you, please advise us. Otherwise, all such documents will be transferred to the person responsible for administering our records retention program.

For various reasons, including the minimization of unnecessary storage expenses, we reserve the right to destroy or otherwise dispose of any such documents retained by us. However, we will give you sufficient notice to allow you to make other arrangements at your own cost.

You are engaging Sidley Austin Brown & Wood to provide legal services in connection with the specific representation as set forth above. After completion of the representation, changes may occur in the applicable laws or regulations that could have an impact upon your future rights and liabilities. Unless you actually engage us after the completion of the representation to provide additional advice on issues arising from the representation, Sidley Austin Brown & Wood has no continuing obligation to advise you with respect to future legal developments.

2. Fees and Expenses. Unless other fee structures/arrangements are agreed upon between the Company and Sidley Austin Brown & Wood in advance<sup>1</sup>, our charges for any work carried out for the Company will be calculated on the basis of the time spent by the lawyers involved. The current standard hourly rates, subject to increase generally on annual basis, for the attorneys/legal assistants who may be involved in the Company's legal work from time to time are as follows:

<u>Name</u>	<u>Hourly Rate (US\$)</u>
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<sup>1</sup> We will continue to honor your preferred blended hourly rate of US\$300 for our legal work on your resins WFOE project in SND.

Tang Zhengyu <sup>2</sup>	450
David Liu <sup>3</sup>	400
Chen Ling <sup>4</sup>	280
Margaret Lo <sup>5</sup>	250
Leo Xiaohui Hu <sup>6</sup>	220
Joe Chen <sup>7</sup>	120
Julie Cheng <sup>8</sup>	120

Additional support may be provided by lawyers/legal assistants in our Beijing and Hong Kong offices as the need arises.

We will prepare translations of legal documents at a flat hourly rate of US\$120.

Disbursements will be charged separately from our service fees. We will include on our bills charges for performing services such as photocopying, messenger and delivery service, computerized research, travel, long-distance telephone, teletype, word processing, and search and filing fees at the rate at which they are charged to us. Fees and expenses of others (such as consultants, appraisers, and local counsel) generally will not be paid by us, but will be billed directly to you if incurred with your approval.

We issue invoices on a monthly basis and all amounts due under our invoices should be paid in US Dollars by wire transfer to our designated bank account on the relevant due date. We will be available at any time to discuss any questions with regard to our bills.

3. Conflicts. As you know, Sidley Austin Brown & Wood has numerous clients. Many of these clients rely upon the Firm for general representation. Although we hope it never happens, it is possible that an adverse relationship (including litigation) may develop in the future between the Company and one of our other clients. If Sidley Austin Brown & Wood is not representing the Company in that matter and the matter in which the Company and another client have adverse interests is not substantially related to our representation of the Company as described above, the Company agrees

<sup>2</sup> Partner, PRC/US educated/qualified, with 11 years' experience of China practice

<sup>3</sup> Counsel, PRC/US educated and US qualified, with 8 years' experience of China practice

<sup>4</sup> PRC Consultant, PRC/HK educated and PRC qualified, with 3 years' experience of China practice

<sup>5</sup> Associate, Australia educated/qualified

<sup>6</sup> Associate, PRC/US educated and US qualified

<sup>7</sup> Legal Assistant, PRC qualified

<sup>8</sup> Legal Assistant, PRC qualified

that we may represent the other client. (You should know that, in similar engagement letters with many of our other clients, we have asked for similar agreements to preserve our ability to represent you.)

*Meanwhile, we remind you that Sidley Austin Brown & Wood has been approved and licensed by the Ministry of Justice as a foreign law firm qualified to provide legal services in PRC. However, under existing PRC regulations, lawyers in our China offices can provide "information regarding the impact of the PRC legal environment" but are not permitted to render formal opinions in respect of PRC law. We would be happy to assist you in obtaining a formal legal opinion from a qualified PRC counsel if you so request.*

Once again, we are pleased to have this opportunity to work with you. If you have any questions or comments during the course of our representation, please call me at (8621) 5306 2866 or (86-1350 1848862).

Yours sincerely,

  
Tang Zhengyu

for Sidley Austin Brown & Wood

AGREED TO AND ACCEPTED BY:

  
for Watts Industries, Inc

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销售合同

### 贵公司的销售渠道、销售区域、内销及外销收入比例、定价政策

本厂销售渠道主要是火力发电厂、水力发电厂,大型引水工程、市政自来水工程、钢铁厂、冶炼厂,销售以厂内销售员为主,另有叁个代理商参与,通过各个设计院选型,经过招、议标后签订合同。

销售区域为全国各地、日本市场(零、部件)及东南亚地区,内销及外销比例 95%: 5%,定价政策为 DN1800mm 口径以下按阀门行业价, DN1800mm 口径以上按吨位价,低压力 ( $\leq 1.6\text{MPa}$ ) 按每吨 2.2 万元,高压力 ( $> 1.6\text{MPa}$ ) 按每吨 2.5 万元。新产品及特殊要求阀门参考进口同类产品价格。

### 主要销售合同条款(包括收款条件,保质期,质保金比例等),合同金额的范围,每年签订的合同的数量

主要销售合同条款:火电厂按 10%预付款,80%交货款,10%质保金。水电厂按 30%预付款,30%提货款,30%到货验收款,10%质保金,其它按火电合同,保质期为出厂十八个月。

合同金额从 2 万(兰州热力公司)到 968 万元(哈尔滨磨盘山引水工程)。合同总价从 1500 元到 370 万元,2001 年签订合同 5304.96 万元,2002 年 6827.13 万元,2003 年合同 7179.46 万元,2004 年 1~9 月合同 9221.55 万元,另签订 2005 年合同 8582.42 万元。

### 给客户的销售回扣的比例及帐务处理,内部销售人员提成制度

给客户的销售回扣的比例视价格而定,包含销售代理费用及差价,设计院咨询费用及销售人员提成等,销售费用总体控制在销售收入的 14% 以内(在完成上级规定的销售额及利润的基础上),内部销售人员提成按 3%。



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### **Sales Channels, Sales Areas, Proportion of Domestic Sales Income and Export Sales Income, and Pricing Policy of your Company**

The sales channels of the Factory is mainly comprised of coal-fired power plants, hydropower plants, large water diversion projects, municipal water supply projects, iron and steel plants and smelting plants. The selling is mainly through the factory's own sales. There are also three sales agents who take part in the selling. The contract is entered into after the selection by the design institute, the invitation to bid and the bid negotiation.

The sales areas cover the whole country, the Japan market (parts and components) and the South East Asia area. The proportion of domestic sales and export sales is 95% and 5%, respectively. The pricing policy for products with caliber of less than DN1800mm is based on the price of the valve industry. The pricing policy for products with caliber of more than DN1800mm is based on the tonnage, with RMB22, 000 per ton for low pressure ( $\leq 1.6\text{Mpa}$ ) and RMB25, 000 per ton for high pressure ( $> 1.6\text{Mpa}$ ). The pricing policy for new products and valves with special requirements will be based on the price of similar imported products.

### **Main Terms of Sales Contract (including Collection Terms, Shelf Life and Quality Assurance Deposit, etc.), Range of Contract Value, Quantity of Contracts Executed Each Year**

Main terms of the sales contract: for coal-fired power plants - 10% advance payment, 80% payment upon delivery of the goods, 10% quality assurance deposit; for hydropower plants - 30% advance payment, 30% payment upon delivery of the goods, 30% payment after accepting the products, 10% quality assurance deposit. Other contracts shall be based on the contracts for coal-fired power plants. The shelf life is eighteen months after leaving the factory.

Contract value ranges from [RMB]20,000 (Lanzhou Heating Corporation) to [RMB]9,680,000 (Harbin Mopan Mountain Water Diversion Project). Total price ranges from [RMB]1,500 to [RMB]3,700,000, contract value for 2001 is [RMB]53,049,600, contract value for 2002 is [RMB]68,271,300, contract value for 2003 is [RMB]71,794,600, contract value through January to September 2004 is [RMB]92,215,500. Contract value for 2005 is [RMB]85,824,200.

### **Amount of kickback paid to client and arrangement of accounts, policy regarding deduction of a percentage by internal sales personnel**

The amount of the kickback paid to a client shall be based on the contract price, inclusive of any sales agency fees, return of price difference, consulting fees to design institutes and sales person's commissions, etc. Sales expenses should be limited to 14% of sales income (provided that the salesperson achieves the sales quota and profit assigned by the supervisor [management]). Internal sales personnel will receive 3% [of the contract price].

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**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 finds<sup>1</sup> 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.

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<sup>1</sup> 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")<sup>2</sup> 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.

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<sup>2</sup> 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.

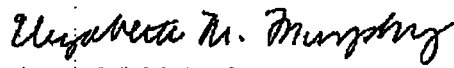
B. Within fourteen days of the entry of this Order:

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

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the 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"), on the Respondents and their legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray  
Chief Administrative Law Judge  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-2557

Patrick L. Feeney, Esquire  
Division of Enforcement  
Securities and Exchange Commission  
100 F Street, N.E.  
Washington, DC 20549-5725B

Mr. David J. Coghlan  
President and Chief Executive Officer  
Watts Water Technologies  
c/o Thomas Zaccaro, Esquire  
Paul Hastings LLP  
515 South Flower Street  
Twenty-Fifth Floor  
Los Angeles, CA 90071

Mr. Leesen Chang  
c/o Robert Collins, Esquire  
437 Mirabay Boulevard  
Apollo Beach, FL 33572

Robert Collins, Esquire  
437 Mirabay Boulevard  
Apollo Beach, FL 33572

Thomas Zaccaro, Esquire  
Paul Hastings LLP  
515 South Flower Street  
Twenty-Fifth Floor  
Los Angeles, CA 90071



Superior Court of the District of Columbia  
 CIVIL DIVISION  
 500 Indiana Avenue, N.W., Suite 5000  
 Washington, D.C. 20001 Telephone: (202) 879-1133

Watts Water Technologies, Inc.

Plaintiff

vs.

Case Number 0004847-12

Sidley Austin, LLP

Defendant

**SUMMONS**

To the above named Defendant:

You are hereby summoned and required to serve an Answer to the attached Complaint, either personally or through an attorney, within twenty (20) days after service of this summons upon you, exclusive of the day of service. If you are being sued as an officer or agency of the United States Government or the District of Columbia Government, you have sixty (60) days after service of this summons to serve your Answer. A copy of the Answer must be mailed to the attorney for the party plaintiff who is suing you. The attorney's name and address appear below. If plaintiff has no attorney, a copy of the Answer must be mailed to the plaintiff at the address stated on this Summons.

You are also required to file the original Answer with the Court in Suite 5000 at 500 Indiana Avenue, N.W., between 8:30 a.m. and 5:00 p.m., Mondays through Fridays or between 9:00 a.m. and 12:00 noon on Saturdays. You may file the original Answer with the Court either before you serve a copy of the Answer on the plaintiff or within five (5) days after you have served the plaintiff. If you fail to file an Answer, judgment by default may be entered against you for the relief demanded in the complaint.

Barry J. Nace

Name of Plaintiff's Attorney

Paulson & Nace, PLLC

Address

1615 New Hampshire Ave, Washington DC 20009

202-463-1999

Telephone

如需翻译,请打电话 (202) 879-4828

Veuillez appeler au (202) 879-4828 pour une traduction

Đề có một bài dịch, hãy gọi (202) 879-4828

번역을 원하시면, (202) 879-4828 로 전화하십시오

የአገልግሎት ገዢዎች ለማግኘት (202) 879-4828 ይደውሉ

Clerk of the Court

By

Deputy Clerk

Date

02/01/2012

**IMPORTANT: IF YOU FAIL TO FILE AN ANSWER WITHIN THE TIME STATED ABOVE, OR IF, AFTER YOU ANSWER, YOU FAIL TO APPEAR AT ANY TIME THE COURT NOTIFIES YOU TO DO SO, A JUDGMENT BY DEFAULT MAY BE ENTERED AGAINST YOU FOR THE MONEY DAMAGES OR OTHER RELIEF DEMANDED IN THE COMPLAINT. IF THIS OCCURS, YOUR WAGES MAY BE ATTACHED OR WITHHELD OR PERSONAL PROPERTY OR REAL ESTATE YOU OWN MAY BE TAKEN AND SOLD TO PAY THE JUDGMENT. IF YOU INTEND TO OPPOSE THIS ACTION, DO NOT FAIL TO ANSWER WITHIN THE REQUIRED TIME.**

If you wish to talk to a lawyer and feel that you cannot afford to pay a fee to a lawyer, promptly contact one of the offices of the Legal Aid Society (202-628-1161) or the Neighborhood Legal Services (202-279-5100) for help or come to Suite 5000 at 500 Indiana Avenue, N.W., for more information concerning places where you may ask for such help.

See reverse side for Spanish translation  
 Veá al dorso la traducción en español



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DIVISIÓN CIVIL

500 Indiana Avenue, N.W., Suite 5000  
Washington, D.C. 20001 Teléfono: (202) 879-1133

\_\_\_\_\_ Demandante  
contra \_\_\_\_\_  
\_\_\_\_\_ Demandado

Número de Caso: \_\_\_\_\_

**CITATORIO**

Al susodicho Demandado:

Por la presente se le cita a comparecer y se le requiere entregar una Contestación a la Demanda adjunta, sea en persona o por medio de un abogado, en el plazo de veinte (20) días contados después que usted haya recibido este citatorio, excluyendo el día mismo de la entrega del citatorio. Si usted está siendo demandado en calidad de oficial o agente del Gobierno de los Estados Unidos de Norteamérica o del Gobierno del Distrito de Columbia, tiene usted sesenta (60) días contados después que usted haya recibido este citatorio, para entregar su Contestación. Tiene que enviarle por correo una copia de su Contestación al abogado de la parte demandante. El nombre y dirección del abogado aparecen al final de este documento. Si el demandado no tiene abogado, tiene que enviarle al demandante una copia de la Contestación por correo a la dirección que aparece en este Citatorio.

A usted también se le requiere presentar la Contestación original al Tribunal en la Oficina 5000, sito en 500 Indiana Avenue, N.W., entre las 8:30 a.m. y 5:00 p.m., de lunes a viernes o entre las 9:00 a.m. y las 12:00 del mediodía los sábados. Usted puede presentar la Contestación original ante el Juez ya sea antes que Usted le entregue al demandante una copia de la Contestación o en el plazo de cinco (5) días de haberle hecho la entrega al demandante. Si usted incumple con presentar una Contestación, podría dictarse un fallo en rebeldía contra usted para que se haga efectivo el desagravio que se busca en la demanda.

*SECRETARIO DEL TRIBUNAL*

Nombre del abogado del Demandante \_\_\_\_\_

Por: \_\_\_\_\_

Dirección \_\_\_\_\_

Subsecretario

Teléfono \_\_\_\_\_

Fecha \_\_\_\_\_

如需翻译, 请拨打 (202) 879-4828      Veuillez appeler au (202) 879-4828 pour une traduction      Để có một bản dịch, hãy gọi (202) 879-4828  
번역을 원하시면, (202) 879-4828 로 전화하십시오      የአግርኛ ትርጉም ለማግኘት (202) 879-4828 ይደውሉ

**IMPORTANTE: SI USTED INCUMPLE CON PRESENTAR UNA CONTESTACIÓN EN EL PLAZO ANTES MENCIONADO, O, SI LUEGO DE CONTESTAR, USTED NO COMPARECE CUANDO LE AVISE EL JUZGADO, PODRÍA DICTARSE UN FALLO EN REBELDÍA CONTRA USTED PARA QUE SE LE COBRE LOS DAÑOS Y PERJUICIOS U OTRO DESAGRAVIO QUE SE BUSQUE EN LA DEMANDA. SI ESTO OCURRE, PODRÍAN RETENERLE SUS INGRESOS, O PODRÍAN TOMAR SUS BIENES PERSONALES O RAÍCES Y VENDERLOS PARA PAGAR EL FALLO. SI USTED PRETENDE Oponerse a esta acción, NO DEJE DE CONTESTAR LA DEMANDA DENTRO DEL PLAZO EXIGIDO.**

Si desea conversar con un abogado y le parece que no puede afrontar el costo de uno, llame pronto a una de nuestras oficinas del Legal Aid Society (202-628-1161) o el Neighborhood Legal Services (202-279-5100) para pedir ayuda o venga a la Oficina 5000 del 500 Indiana Avenue, N.W., para informarse de otros lugares donde puede pedir ayuda al respecto.

Vea al dorso el original en inglés  
See reverse side for English original

# Superior Court of the District of Columbia

CIVIL DIVISION - CIVIL ACTIONS BRANCH

## INFORMATION SHEET

Watts Water Technologies, Inc.

Case Number: 0004847-12

vs

Date: 06/06/2012

Sidley Austin, LLP

One of the defendants is being sued  
in their official capacity.

Name: (please print) Barry J. Nace	Relationship to Lawsuit <input checked="" type="checkbox"/> Attorney for Plaintiff
Firm Name: Paulson & Nace, PLLC	<input type="checkbox"/> Self (Pro Se)
Telephone No.: 202-463-1999	Other: _____
Six digit Unified Bar No.: 130724	

TYPE OF CASE:  Non-Jury  6 Person Jury  12 Person Jury  
Demand: \$ excess of \$ 100,000.00 Other: \_\_\_\_\_

### PENDING CASE(S) RELATED TO THE ACTION BEING FILED

Case No.: \_\_\_\_\_ Judge: \_\_\_\_\_ Calendar #: \_\_\_\_\_

Case No.: \_\_\_\_\_ Judge: \_\_\_\_\_ Calendar #: \_\_\_\_\_

NATURE OF SUIT: (Check One Box Only)		
<b>A. CONTRACTS</b> <input type="checkbox"/> 01 Breach of Contract <input type="checkbox"/> 02 Breach of Warranty <input type="checkbox"/> 06 Negotiable Instrument <input type="checkbox"/> 15 _____	<input type="checkbox"/> 07 Personal Property <input type="checkbox"/> 09 Real Property-Real Estate <input type="checkbox"/> 12 Specific Performance	<b>COLLECTION CASES</b> <input type="checkbox"/> 14 Under \$25,000 Pltf. Grants Consent <input type="checkbox"/> 16 Under \$25,000 Consent Denied <input type="checkbox"/> 17 OVER \$25,000 Pltf. Grants Consent
<b>B. PROPERTY TORTS</b> <input type="checkbox"/> 01 Automobile <input type="checkbox"/> 02 Conversion <input type="checkbox"/> 07 Shoplifting, D.C. Code § 27-102(a)	<input type="checkbox"/> 03 Destruction of Private Property <input type="checkbox"/> 04 Property Damage	<input type="checkbox"/> 05 Trespass <input type="checkbox"/> 06 Traffic Adjudication
<b>C. PERSONAL TORTS</b> <input type="checkbox"/> 01 Abuse of Process <input type="checkbox"/> 02 Alienation of Affection <input type="checkbox"/> 03 Assault and Battery <input type="checkbox"/> 04 Automobile-Personal Injury <input type="checkbox"/> 05 Deceit (Misrepresentation) <input type="checkbox"/> 06 False Accusation <input type="checkbox"/> 07 False Arrest <input type="checkbox"/> 08 Fraud	<input type="checkbox"/> 09 Harassment <input type="checkbox"/> 10 Invasion of Privacy <input type="checkbox"/> 11 Libel and Slander <input type="checkbox"/> 12 Malicious Interference <input type="checkbox"/> 13 Malicious Prosecution <input checked="" type="checkbox"/> 14 Malpractice Legal <input type="checkbox"/> 15 Malpractice Medical (including wrongful death) <input type="checkbox"/> 16 Negligence-(Not Automobile, Not Malpractice)	<input type="checkbox"/> 17 Personal Injury - (Not Automobile, Not Malpractice) <input type="checkbox"/> 18 Wrongful Death (Not malpractice) <input type="checkbox"/> 19 Wrongful Eviction <input type="checkbox"/> 20 Friendly Suit <input type="checkbox"/> 21 Asbestos <input type="checkbox"/> 22 Toxic/Mass Torts <input type="checkbox"/> 23 Tobacco <input type="checkbox"/> 24 Lead Paint

SEE REVERSE SIDE AND CHECK HERE  IF USED



SUPERIOR COURT OF THE DISTRICT OF COLUMBIA  
CIVIL DIVISION

WATTS WATER TECHNOLOGIES, INC.

Vs.

SIDLEY AUSTIN, LLP

C.A. No. 2012 CA 004847 M

**INITIAL ORDER AND ADDENDUM**

Pursuant to D.C. Code § 11-906 and District of Columbia Superior Court Rule of Civil Procedure ("SCR Civ") 40-I, it is hereby **ORDERED** as follows:

- (1) Effective this date, this case has assigned to the individual calendar designated below. All future filings in this case shall bear the calendar number and the judge's name beneath the case number in the caption. On filing any motion or paper related thereto, one copy (for the judge) must be delivered to the Clerk along with the original.
- (2) Within 60 days of the filing of the complaint, plaintiff must file proof of serving on each defendant: copies of the Summons, the Complaint, and this Initial Order. As to any defendant for whom such proof of service has not been filed, the Complaint will be dismissed without prejudice for want of prosecution unless the time for serving the defendant has been extended as provided in SCR Civ 4(m).
- (3) Within 20 days of service as described above, except as otherwise noted in SCR Civ 12, each defendant must respond to the Complaint by filing an Answer or other responsive pleading. As to the defendant who has failed to respond, a default and judgment will be entered unless the time to respond has been extended as provided in SCR Civ 55(a).
- (4) At the time and place noted below, all counsel and unrepresented parties shall appear before the assigned judge at an Initial Scheduling and Settlement Conference to discuss the possibilities of settlement and to establish a schedule for the completion of all proceedings, including, normally, either mediation, case evaluation, or arbitration. Counsel shall discuss with their clients prior to the conference whether the clients are agreeable to binding or non-binding arbitration. **This order is the only notice that parties and counsel will receive concerning this Conference.**
- (5) Upon advice that the date noted below is inconvenient for any party or counsel, the Quality Review Branch (202) 879-1750 may continue the Conference once, with the consent of all parties, to either of the two succeeding Fridays. Request must be made not less than six business days before the scheduling conference date. No other continuance of the conference will be granted except upon motion for good cause shown.
- (6) Parties are responsible for obtaining and complying with all requirements of the General Order for Civil cases, each Judge's Supplement to the General Order and the General Mediation Order. Copies of these orders are available in the Courtroom and on the Court's website <http://www.dccourts.gov/>.

Chief Judge Lee F. Satterfield

Case Assigned to: Judge GREGORY E JACKSON

Date: June 6, 2012

Initial Conference: 9:30 am, Friday, September 07, 2012

Location: Courtroom 100

500 Indiana Avenue N.W.

WASHINGTON, DC 20001

Caio.doc



**ADDENDUM TO INITIAL ORDER AFFECTING  
ALL MEDICAL MALPRACTICE CASES**

In accordance with the Medical Malpractice Proceedings Act of 2006, D.C. Code § 16-2801, et seq. (2007 Winter Supp.), "[a]fter an action is filed in the court against a healthcare provider alleging medical malpractice, the court shall require the parties to enter into mediation, without discovery or, if all parties agree[,] with only limited discovery that will not interfere with the completion of mediation within 30 days of the Initial Scheduling and Settlement Conference ("ISSC"), prior to any further litigation in an effort to reach a settlement agreement. The early mediation schedule shall be included in the Scheduling Order following the ISSC. Unless all parties agree, the stay of discovery shall not be more than 30 days after the ISSC." D.C. Code § 16-2821.

To ensure compliance with this legislation, on or before the date of the ISSC, the Court will notify all attorneys and *pro se* parties of the date and time of the early mediation session and the name of the assigned mediator. Information about the early mediation date also is available over the internet at <https://www.dccourts.gov/pa/>. To facilitate this process, all counsel and *pro se* parties in every medical malpractice case are required to confer, jointly complete and sign an EARLY MEDIATION FORM, which must be filed no later than ten (10) calendar days prior to the ISSC. Two separate Early Mediation Forms are available. Both forms may be obtained at [www.dccourts.gov/medmalmediation](http://www.dccourts.gov/medmalmediation). One form is to be used for early mediation with a mediator from the multi-door medical malpractice mediator roster; the second form is to be used for early mediation with a private mediator. Both forms also are available in the Multi-Door Dispute Resolution Office, Suite 105, 515 5th Street, N.W. (enter at Police Memorial Plaza entrance). Plaintiff's counsel is responsible for eFiling the form and is required to e-mail a courtesy copy to [earlymedmal@dsc.gov](mailto:earlymedmal@dsc.gov). *Pro se* Plaintiffs who elect not to eFile may file by hand in the Multi-Door Dispute Resolution Office.

A roster of medical malpractice mediators available through the Court's Multi-Door Dispute Resolution Division, with biographical information about each mediator, can be found at [www.dccourts.gov/medmalmediation/mediatorprofiles](http://www.dccourts.gov/medmalmediation/mediatorprofiles). All individuals on the roster are judges or lawyers with at least 10 years of significant experience in medical malpractice litigation. D.C. Code § 16-2823(a). If the parties cannot agree on a mediator, the Court will appoint one. D.C. Code § 16-2823(b).

The following persons are required by statute to attend personally the Early Mediation Conference: (1) all parties; (2) for parties that are not individuals, a representative with settlement authority; (3) in cases involving an insurance company, a representative of the company with settlement authority; and (4) attorneys representing each party with primary responsibility for the case. D.C. Code § 16-2824.

No later than ten (10) days after the early mediation session has terminated, Plaintiff must eFile with the Court a report prepared by the mediator, including a private mediator, regarding: (1) attendance; (2) whether a settlement was reached; or, (3) if a settlement was not reached, any agreements to narrow the scope of the dispute, limit discovery, facilitate future settlement, hold another mediation session, or otherwise reduce the cost and time of trial preparation. D.C. Code § 16-2826. Any Plaintiff who is *pro se* may elect to file the report by hand with the Civil Clerk's Office. The forms to be used for early mediation reports are available at [www.dccourts.gov/medmalmediation](http://www.dccourts.gov/medmalmediation).

Chief Judge Lee F. Satterfield