

WATTS WATER TECHNOLOGIES INC

FORM DEF 14A (Proxy Statement (definitive))

Filed 9/13/1994 For Period Ending 6/30/1994

Address	815 CHESTNUT ST NORTH ANDOVER, Massachusetts 01845
Telephone	978-688-1811
CIK	0000795403
Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

SCHEDULE 14A

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934

Filed by the Registrant ☒
Filed by a Party other than the Registrant ☐

Check the appropriate box:
☐ Preliminary Proxy Statement
☒ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Materials Pursuant to s. 240.14a-11(c) or s. 240.14a-12

Watts Industries, Inc.

(Name of Registrant as Specified In Its Charter)

Thomas J. White, Esq.

(Name of Person(s) Filing Proxy Statement)

Payment of Filing Fee (Check the appropriate box):
☒ \$125 per Exchange Act Rules 0-11(c)(1)(ii), 14a-6(i)(1), or 14a-6(i)(2).
☐ \$500 per each party to the controversy pursuant to Exchange Act
Rule 14a-6(i)(3).
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:(1)

4) Proposed maximum aggregate value of transaction:

(1)Set forth the amount on which the filing fee is calculated and state how it was determined.

☒ Check box if any part of the fee is offset as provided by Exchange Act

Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid: \$125.00

2) Form, Schedule or Registration Statement No.: Pre 14A

3) Filing Party: Watts Industries, Inc.

4) Date Filed: August 22, 1994 (Via EDGAR)

[WATTS LOGO]
WATTS INDUSTRIES, INC.

SEPTEMBER 14, 1994

Dear Stockholder:

We cordially invite you to attend our 1994 Annual Meeting, which will be held on Tuesday, October 18, 1994 at 10:00 a.m., in the Phillips Room of The Andover Inn at Phillips Academy, Chapel Avenue, Andover, Massachusetts 01810.

The purposes of the Annual Meeting are (i) to elect Directors as set forth in Proposal 1, (ii) to ratify the selection of independent auditors for the current fiscal year as set forth in Proposal 2, and (iii) to approve an amendment to the Restated Certificate of Incorporation to increase the number of authorized shares of the Company's Class A Common Stock from 40,000,000 shares to 80,000,000 shares and to increase the number of authorized shares of the Company's Class B Common Stock from 13,000,000 shares to 25,000,000 shares as set forth in Proposal 3. The Board of Directors recommends that you vote in favor of these proposals and urges you to read the proxy statement which describes these proposals and presents other important information.

Your support of our efforts is important to the other Directors and to me regardless of the number of shares you own. Accordingly, we urge you to complete, sign and return your proxy promptly in the envelope provided for your convenience.

Following the completion of the scheduled business, we will report on the Company's operations and plans and answer questions from the floor. We hope that you will be able to join us on October 18th.

Sincerely,
[Timothy P. Horne Signature]
Timothy P. Horne
Chairman of the Board, President
and Chief Executive Officer

**WATTS INDUSTRIES, INC.
815 CHESTNUT STREET
NORTH ANDOVER, MA 01845**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON OCTOBER 18, 1994**

To the Stockholders of
Watts Industries, Inc.

Notice is hereby given that the Annual Meeting of Stockholders of Watts Industries, Inc. will be held in the Phillips Room of The Andover Inn at Phillips Academy, Chapel Avenue, Andover, Massachusetts 01810, on Tuesday, October 18, 1994, at 10:00 a.m., for the following purposes:

1. To elect to the Board of Directors of Watts Industries, Inc. eight Directors to hold office until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified;
2. To ratify the selection of Ernst & Young as the independent auditors of the Company for the current fiscal year;
3. To approve an amendment to the Company's Restated Certificate of Incorporation restating Article Fourth thereof to increase the number of authorized shares of the Company's capital stock by increasing the number of authorized shares of Class A Common Stock to 80,000,000 and the number of authorized shares of Class B Common Stock to 25,000,000; and
4. To consider and act upon any matters incidental to the foregoing or any other matters which may properly come before the meeting or any adjournment(s) or postponement(s) thereof.

Only stockholders of record at the close of business on September 2, 1994 will be entitled to notice of and to vote at the meeting or any adjournment(s) or postponement(s) thereof.

By Order of the Board of Directors
[Kenneth J. McAvoy]
Kenneth J. McAvoy
Secretary

North Andover, Massachusetts
September 14, 1994

IMPORTANT

IT IS IMPORTANT THAT YOUR SHARES BE REPRESENTED AT THE ANNUAL MEETING OF STOCKHOLDERS. ACCORDINGLY, YOU ARE URGED TO PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE ENCLOSED POSTAGE PAID ENVELOPE. IF YOU SO CHOOSE, YOU MAY VOTE YOUR SHARES IN PERSON AT THE ANNUAL MEETING.

WATTS INDUSTRIES, INC.
ANNUAL MEETING OF STOCKHOLDERS
OCTOBER 18, 1994

PROXY STATEMENT

**INFORMATION CONCERNING
SOLICITATION AND VOTING**

This proxy statement is furnished in connection with the solicitation of proxies by the Board of Directors of Watts Industries, Inc. (the "Company") for use at the Company's 1994 Annual Meeting of Stockholders to be held on Tuesday, October 18, 1994 and at any adjournment(s) or postponement(s) thereof. Shares represented by duly executed proxies will be voted for the election of the nominees named herein for Director, for the ratification of the selection of Ernst & Young as the independent auditors of the Company for the current fiscal year, and for approval of an amendment to the Company's Restated Certificate of Incorporation to increase the number of authorized shares of the Company's capital stock by increasing the number of authorized shares of Class A Common Stock to 80,000,000 and the number of authorized shares of Class B Common Stock to 25,000,000, unless authority is withheld or different instructions are given.

Proxies may be revoked by a written revocation received by the Secretary of the Company at the address of the Company set forth below or in open meeting at any time prior to the voting thereof. Submission of a later dated proxy will revoke any earlier dated proxy. Unless previously revoked, proxies delivered will be voted at the meeting. Where a choice or instruction is specified by the stockholder thereon, the proxy will be voted in accordance with such specification. Where a choice or instruction is not specified by the stockholder, the proxy will be voted as recommended by the Directors. Shares held for customers of brokers which are not voted on a proposal because of a lack of instructions from such brokers' customers are not considered entitled to vote on that proposal, but if represented by proxy will be treated as present at the meeting. Because directors are elected by a plurality of the votes cast, withholding authority to vote for a nominee has the same effect as a vote against such nominee.

Stockholders of record at the close of business on September 2, 1994 are entitled to receive notice of and to vote at the meeting. Each share of Class A Common Stock of the Company outstanding on the record date is entitled to one vote and each share of Class B Common Stock of the Company outstanding on the record date is entitled to ten votes. As of the close of business on September 2, 1994, there were outstanding and entitled to vote 18,013,522 shares of Class A Common Stock and 11,472,470 shares of Class B Common Stock.

This proxy statement and the enclosed proxy are being mailed together by the Company on or about September 14, 1994 to stockholders of record as of September 2, 1994. The Company's Annual Report for the fiscal year ended June 30, 1994 was mailed to such stockholders of the Company with this proxy statement.

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

The expenses of preparing, printing and assembling the materials used in the solicitation of proxies will be borne by the Company. In addition to the solicitation of proxies by use of the mails, the Company will pay \$2,500 plus expenses to Corporate Investor Communications, Inc. to solicit proxies and the Company may also use the services of some of its officers and employees (who will receive no compensation therefor in addition to their regular salaries) to solicit proxies personally and by mail, telephone and telegraph. Brokerage houses, nominees, fiduciaries and other custodians will be requested to forward solicitation materials to the beneficial owners of shares held of record by them and will be reimbursed for their reasonable expenses.

At the date hereof the management of the Company has no knowledge of any business other than the matters set forth in the Notice of Annual Meeting of Stockholders and described above that will be presented for consideration at the meeting. If any other business should come before such meeting, the persons appointed by the enclosed form of proxy will have discretionary authority to vote all such proxies as they shall decide. Each of the persons appointed by the enclosed form of proxy present and acting at the meeting, in person or by substitute, shall have and may exercise all of the powers and authority of the proxies.

PROPOSAL 1 ELECTION OF DIRECTORS

The Board of Directors of the Company has fixed the number of Directors at eight and nominated the individuals named below for election as Directors. If elected, the nominees will serve until the next Annual Meeting of Stockholders and until their successors shall have been duly elected and qualified. Proxies will be voted for the nominees named below unless otherwise specified in the proxy. All of the nominees are presently members of the Board of Directors. Management does not contemplate that any of the nominees will be unable to serve, but in that event, proxies solicited hereby will be voted either for the election of another person or persons to be designated by the Board of Directors or to fix the number of Directors at a lesser number and elect the nominees able to serve. Holders of voting rights sufficient to elect each of the nominees named below have indicated an intention to vote in favor of such nominees.

INFORMATION AS TO NOMINEES FOR DIRECTOR

Set forth below is the name and age of each nominee for director, who are the current directors of the Company, his or her principal occupation for the past five years, the year each became a director of the Company and the names of certain other companies in which he or she serves as a director. The information is as of August 16, 1994.

Name	Age	Present Principal Employment and Prior Business Experience (1)	Director Since (1)
Timothy P. Horne	56	Chairman of the Board since 1986 and Chief Executive Officer since 1978; President since 1994. Mr. Horne joined the Company in 1959.	1962
David A. Bloss, Sr.	44	Executive Vice President since July, 1993. Prior to July, 1993, Mr. Bloss was associated for five years with the Norton Company, a manufacturer of abrasives and cutting tools, serving as President of its Superabrasives Division from 1991 to 1993.	1994
Frederic B. Horne	44	Corporate Vice President since 1987; Vice President and General Manager from 1978 to 1987. Mr. Horne joined the Company in 1973.	1980
Kenneth J. McAvoy	54	Chief Financial Officer and Treasurer since 1986; Vice President of Finance since 1984; Executive Vice President of European Operations since 1994; Secretary since 1985. Mr. McAvoy joined the Company in 1981.	1994
Noah T. Herndon	62	Partner of Brown Brothers Harriman & Co., private bankers, since 1974. Mr. Herndon is a director of Agency Rent-A-Car, Inc.	1981
Wendy E. Lane	44	Chairman of Lane Holdings, Inc., an investment banking firm, since 1992. Prior to forming Lane Holdings, Ms. Lane was a Principal and Managing Director of Donaldson, Lufkin & Jenrette, an investment banking firm, serving in these and other positions from 1980 to 1992.	1994
Gordon W. Moran	56	President and Chief Executive Officer of Hollingsworth & Vose Company, a paper manufacturer, since 1983. Mr. Moran is a director of Associated Industries of Massachusetts, the American Paper Institute and the South Norfolk County Association for Retarded Citizens, Inc.	1990
Daniel J. Murphy, III	52	Chairman of Northmark Bank, a commercial bank, since August 1987. Prior to forming Northmark Bank in 1987, Mr. Murphy was a Managing Director of Knightsbridge Partners, Incorporated, a venture capital firm, from January to August 1987 and President and a director of Arltru Bancorporation, a bank holding company, and its wholly-owned subsidiary, Arlington Trust Company, from 1980 to 1986. Mr. Murphy is a director of Bay State Gas Company.	1986

(1) All positions with the Company indicated for periods prior to January 1, 1986 were held with Watts Regulator Co. The Company became the parent company of Watts Regulator Co. and its various subsidiaries pursuant to a reorganization effective as of January 1, 1986. Timothy P. Horne and Frederic B. Horne are brothers.

FEES TO CERTAIN DIRECTORS

Each non-employee Director receives a fee of \$15,000 per year and \$500 per Board of Directors or committee meeting attended, effective January 1, 1994, and also receives reimbursement for out-of-pocket expenses incurred in connection with attending such meetings. Prior to January 1, 1994, the fee was \$12,000 per year. In addition, each non-employee Director is eligible to receive grants of stock options under the Company's 1991 Non-Employee Directors' Nonqualified Stock Option Plan. Directors of the Company who are employees of the Company receive no compensation for their services as Directors.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

The Company's Board of Directors held seven meetings during the fiscal year ended June 30, 1994. Each of the Directors of the Company attended at least three-quarters of the meetings of the Board and of the committees on which such Director served. The Company's Board of Directors has a standing Audit Committee and a standing Stock Option and Compensation Committee. The Audit Committee held three meetings, and the Stock Option and Compensation Committee held one meeting, during the fiscal year ended June 30, 1994. The Audit Committee reviews audit performance, recommends appropriate action on the basis of audit results and receives and reviews the auditors' "management letters" and management's responses thereto. The Stock Option and Compensation Committee is responsible for administering the Company's 1986 Incentive Stock Option Plan and its 1989 Nonqualified Stock Option Plan pursuant to authority delegated to it by the Board of Directors and for approving the compensation arrangements of the principal executive officers of the Company. Messrs. Herndon, Murphy and Moran comprised both the Audit Committee and the Stock Option and Compensation Committee during the fiscal year ended June 30, 1994. As of August 9, 1994, Messrs. Herndon and Moran and Ms. Lane comprise the Audit Committee and Messrs. Murphy and Herndon and Ms. Lane comprise the Stock Option and Compensation Committee.

PRINCIPAL AND MANAGEMENT STOCKHOLDERS

The following table sets forth as of August 16, 1994 (except as otherwise indicated) certain information concerning shares of Class A Common Stock and Class B Common Stock held by (i) all beneficial owners of 5% or more of either class of the Company's common stock, (ii) each Director or person nominated for election as a Director of the Company and (iii) the Chairman/President/Chief Executive Officer, the four other most highly compensated executive officers listed in the Summary Compensation Table, one individual who would have been one of such four most highly compensated executive officers but who was not serving as an executive officer at fiscal year ended June 30, 1994 and, as a group, all officers and Directors or persons nominated for election as Directors of the Company.

Name of Beneficial Owner (2)	Number of Shares	Total Percent (1)	
	Beneficially Owned(3)(16)	Equity	Voting
Timothy P. Horne (4)	10,682,494(5)(6)	36.2%	79.7%
Frederic B. Horne (4)	10,980,750(6)(7)	37.2	82.3
George B. Horne (4) (8)	2,200,000(6)(8)(9)	7.5	16.6
Daniel W. Horne (4)(10)	1,335,840(6)(9)(10)	4.5	10.1
Deborah Horne (4)(11)	1,335,840(6)(9)(11)	4.5	10.1
Peter W. Horne (4)(12)	1,335,840(6)(9)(12)	4.5	10.1
Nicholas Company, Inc.	2,561,800(13)(14)	8.7	1.9
Nicholas Fund, Inc.	1,857,000(13)(14)	6.3	1.4
First Pacific Advisors, Inc.	1,143,800(13)(15)	3.9	*
Noah T. Herndon	8,000(13)(17)	*	*
Wendy E. Lane	1,000(13)	*	*
Daniel J. Murphy, III	7,000(13)(17)	*	*
Gordon W. Moran	7,000(13)(17)	*	*
David A. Bloss, Sr.	4,000(13)(20)	*	*
Kenneth J. McAvoy	36,000(13)(18)	*	*
Robert T. McLaurin	27,550(19)(22)	*	*
Martin W. Pickett	100(13)	*	*
Charles W. Grigg	9,190(13)	*	*
All officers and Directors as a group (12 persons)	11,554,288(21)(22)	39.2	85.2

* Less than 1%.

(1) The percentages have been determined as of August 16, 1994 in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). At that date, a total of 29,485,992 shares were outstanding, of which 11,472,470 were shares of Class B Common Stock entitled to ten votes per share and 18,013,522 were shares of Class A Common Stock entitled to one vote per share. Each share of Class B Common Stock is convertible into one share of Class A Common Stock.

(2) The address of Nicholas Company, Inc. and Nicholas Fund, Inc. is 700 North Water Street, Milwaukee, Wisconsin 53202. The address of First Pacific Advisors, Inc. is 11400 West Olympic Boulevard, Los Angeles, California 90064. The address of each other stockholder in the table is c/o Watts Industries, Inc., 815 Chestnut Street, North Andover, Massachusetts 01845, except for Martin W. Pickett whose address is Cla-Val Company, 1701 Placentia, Costa Mesa, CA 92726 and Charles W. Grigg whose address is 87 Spruce Hill Road, Weston, Massachusetts 02193.

(3) "Beneficial ownership" means the sole or shared power to vote, or to direct the voting of, a security, or the sole or shared investment power with respect to a security (i.e., the power to dispose of, or to direct the disposition of, a security). A person is deemed, as of any date, to have "beneficial ownership" of any security that such person has the right to acquire within 60 days after such date.

(4) Timothy P. Horne, Frederic B. Horne, George B. Horne, Daniel W. Horne, Deborah Horne and Peter W. Horne, together with Judith Rae Horne (as trustee and custodian for her minor daughter) may be deemed a "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended. Shares of Class B Common Stock of the Company held by each member of the Horne family named in the above table and any voting trust certificates in respect thereof are subject to a right of first refusal in favor of the other Horne family members named in the table. The Company has granted registration rights with respect to the shares of Class B Common Stock beneficially owned by such Horne family members.

(5) Includes (i) 2,936,068 shares, of which 84,848 shares are Class A Common Stock, beneficially owned by Timothy P. Horne (for purposes of this footnote, "Mr. Horne"), (ii) 1,355,166 shares owned by Frederic B. Horne, Mr. Horne's brother, (iii) 1,335,840 shares held for the benefit of Daniel W. Horne, Mr. Horne's brother, under a revocable trust for which Mr. Horne serves as sole trustee, (iv) 1,335,840 shares held for the benefit of Deborah Horne, Mr. Horne's sister, under a trust for which Mr. Horne serves as sole trustee, which trust is revocable with the consent of the trustee, (v) 1,335,840 shares held for the benefit of Peter W. Horne, Mr. Horne's brother, under a revocable trust for which Frederic B. Horne serves as sole trustee, (vi) 2,200,000 shares held for the benefit of George B. Horne, Mr. Horne's father, under a revocable trust for which Mr. Horne serves as co-trustee, and (vii) 26,000 shares issuable upon the exercise of stock options. Also includes 157,740 shares held by Judith Rae Horne, Mr. Horne's wife, as trustee or custodian for Mr. Horne's minor daughter, of which Mr. Horne disclaims beneficial ownership. A total of 2,851,220 of the shares of Class B Common Stock noted in clause (i), the shares noted in clause (ii) through (v), and 2,000,000 of the shares noted in clause (vi), of this footnote (10,213,906 shares in the aggregate) are held in a voting trust for which Mr. Horne serves as co-trustee. See footnote 6. All shares beneficially owned or which may be deemed beneficially owned by Mr. Horne are Class B Common Stock except 84,848 of the 2,936,068 shares noted in clause (i) and all of the shares noted in clause (vii) of this footnote.

(6) All shares of Class B Common Stock beneficially owned by Timothy P. Horne, all shares of Class B Common Stock beneficially owned by trusts for the benefit of Daniel W. Horne, Deborah Horne and Peter W. Horne, 1,355,166 shares of Class B Common Stock beneficially owned by Frederic B. Horne and 2,000,000 shares beneficially owned by a trust for the benefit of George B. Horne (10,213,906 shares in the aggregate) are subject to the terms of the Horne Family Voting Trust Agreement--1991 (the "Voting Trust"). Under the terms of the Voting Trust, the two trustees (currently Timothy P. Horne and Frederic B. Horne) have sole power to vote all shares subject to the Voting Trust. However, as long as Timothy P. Horne and Frederic B. Horne are serving as trustees of the Voting Trust, Timothy P. Horne generally has the right to vote all shares subject to such trust in the event that the trustees do not concur with respect to any proposed action, including any exercise of the trustee's right to authorize the withdrawal of shares from the Voting Trust (the "Determination Power"). The sole exception to the Determination Power is that the concurrence of Timothy P. Horne and Frederic B. Horne is required for the voting of shares in connection with any vote involving the election or removal of directors of the Company. Under the terms of the Voting Trust, Timothy P. Horne, the Chairman of the Board of Directors, President and Chief Executive Officer of the Company, Frederic B. Horne, a Corporate Vice President and a Director of the Company, and George B. Horne, the father of Timothy P. Horne

and Frederic B. Horne, may designate up to two successor trustees to succeed Timothy P. Horne and Frederic B. Horne, one to be designated as the primary designee and the other as the secondary designee. If either Timothy P. Horne or Frederic B. Horne ceases for any reason to serve as a trustee, first the primary designee and then the secondary designee (if any) would become a co-trustee with the remaining Horne brother. Under such circumstances the remaining Horne brother would generally have the Determination Power except that (i) the concurrence of the remaining Horne brother and the co-trustee would be required in connection with any vote involving the election or removal of directors of the Company, (ii) the designated successor would vote those shares owned by the departed Horne brother and (iii) the designated successor would have sole authority with respect to withdrawals of shares beneficially owned by the departed Horne brother. If both Timothy P. Horne and Frederic B. Horne cease to serve as trustees, first the primary designee and then the secondary designee would remain as the sole trustee for the term of the Voting Trust. If designated successors become trustees but do not survive whichever of Timothy P. Horne or Frederic B. Horne is still serving as trustee, that trustee would remain as the sole trustee absent an amendment to the Voting Trust. If each of Timothy P. Horne and Frederic B. Horne and the two designated successors cease to serve as trustees for any reason, the holders of a majority of the voting trust certificates then outstanding have the right to designate successor trustees as necessary under the terms of the Voting Trust. Pursuant to the power of designation described above, Timothy P. Horne, Frederic B. Horne and George B. Horne have designated Noah T. Herndon, a Director of the Company, as the primary designee and John LeClaire, Esq., a partner in the law firm of Goodwin, Procter & Hoar, as the secondary designee, should either Timothy P. Horne or Frederic B. Horne cease to serve as a trustee under the Voting Trust. Timothy P. Horne, Frederic B. Horne and George B. Horne can collectively agree to revoke the designation of any successor before he begins to serve or to appoint a new designated successor. If one or more of such Horne family members are unable to take such action, this power rests in the survivor or survivors of them.

The Voting Trust expires on October 31, 2001, subject to extension on or after October 31, 1999 by stockholders (including the trustee of any trust stockholder, whether or not such trust is then in existence) who deposited shares of Class B Common Stock in the Voting Trust and are then living or, in the case of shares in the Voting Trust the original depositor of which (or the trustee of the original depositor of which) is not then living, the holders of voting trust certificates representing such shares. The Voting Trust may be amended by vote of the holders of a majority of the voting trust certificates then outstanding and, while one or more of Timothy P. Horne, Frederic B. Horne and their successor designated as described in the preceding paragraph is serving as trustee, the trustees. In certain cases (i.e., changes to the extension, termination and amendment provisions), the original depositors must also approve amendments. Shares may not be removed from the trust during its term without the consent of the trustees.

Timothy P. Horne beneficially owns 27.9% of the total beneficial interest in the Voting Trust (the "Beneficial Interest") individually, 13.1% of the Beneficial Interest as trustee of a revocable trust, 13.1% of the Beneficial Interest as trustee of a trust revocable with the consent of the trustee and 19.6% of the Beneficial Interest as co-trustee of a revocable trust (representing an aggregate of 73.7% of the Beneficial Interest). Frederic B. Horne beneficially owns 13.3% of the Beneficial Interest individually and 13.1% of the Beneficial Interest as trustee of a revocable trust (representing an aggregate of 26.4% of the Beneficial Interest). George B. Horne holds 19.6% of the Beneficial Interest as co-trustee of a revocable trust. Voting trust certificates are subject to any restrictions on transfer applicable to the stock which they represent.

(7) Includes (i) 2,102,010 shares, of which 46,844 are shares of Class A Common Stock, beneficially owned by Frederic B. Horne (for purposes of this footnote, "Mr. Horne"), (ii) 2,851,220 shares beneficially owned by Timothy P. Horne, (iii) 1,335,840 shares beneficially owned by a revocable trust for the benefit of Daniel W. Horne for which Timothy P. Horne serves as sole trustee, (iv) 1,335,840 shares beneficially owned by a trust for the benefit of Deborah Horne, for which Timothy P. Horne serves as sole trustee, which trust is revocable with the consent of the trustee, (v) 1,335,840 shares beneficially owned by a revocable trust for the benefit of Peter W. Horne for which Mr. Horne serves as sole trustee, (vi) 2,000,000 shares beneficially owned by a revocable trust for the benefit of George B. Horne, for which George B. Horne and Timothy P. Horne serve as co-trustees and (vii) 20,000 shares issuable upon the exercise of stock options. A total of 1,355,166 of the 2,102,010 shares of Class B Common Stock noted in clause (i) and all of the shares noted in clauses (ii) through (vi) above (10,213,906 shares in the aggregate) are held in the voting trust described in footnote 6 above. All shares beneficially owned or which may be deemed beneficially owned by Mr. Horne are Class B Common Stock except 46,844 of the 2,102,010 shares noted in clause (i) and all of the shares noted in clause (vii) of this footnote.

(8) Includes 2,200,000 shares held in a revocable trust for which Timothy P. Horne and George B. Horne serve as co-trustees. A total of 2,000,000 of such shares are subject to the voting trust described in footnote 6 above.

(9) All shares are Class B Common Stock.

(10) Shares are held in a revocable trust for which Timothy P. Horne serves as sole trustee, and are subject to the voting trust described in footnote 6.

(11) Shares are held in a trust for which Timothy P. Horne serves as sole trustee, which trust is revocable with the consent of the trustee, and are subject to the voting trust described in footnote 6.

(12) Shares are held in a revocable trust for which Frederic B. Horne serves as sole trustee, and are subject to the voting trust described in footnote 6.

(13) All shares are shares of Class A Common Stock or options to purchase Class A Common Stock exercisable presently or within 60 days of August 16, 1994.

(14) The information is based on a Schedule 13G dated February 8, 1994 filed with the Securities and Exchange Commission by Nicholas Company, Inc., Nicholas Fund, Inc. and Albert O. Nicholas reporting their holdings of shares of Class A Common Stock as of December 31, 1993. Nicholas Company, Inc. has stated in the Schedule 13G that it is an investment adviser registered under the Investment Advisers Act of 1940 and possesses sole dispositive power over 2,561,800 shares indicated as owned by it. Nicholas Fund, Inc. has stated in the Schedule 13G that it is an investment company registered under the Investment Company Act of 1940 and possesses sole voting power for 1,857,000 of the shares owned by Nicholas Company, Inc. Albert O. Nicholas has stated in the Schedule 13G that he is an individual and disclaims direct beneficial ownership of all securities reported as beneficially owned by Nicholas Company, Inc. and Nicholas Fund, Inc. Mr. Nicholas is the President, a Director and the majority stockholder of Nicholas Company, Inc. and President and Director of Nicholas Fund, Inc.

(15) The information is based on a Schedule 13G dated February 9, 1994 filed with the Securities and Exchange Commission by First Pacific Advisors, Inc. reporting its holdings of shares of Class A Common Stock as of December 31, 1993. First Pacific Advisors, Inc. has stated in the Schedule 13G that it is an investment adviser registered under the Investment Advisers Act of 1940 and that it possesses shared voting power over 983,400 shares and shared dispositive power over 1,143,800 shares.

(16) All share amounts were doubled as a result of a two-for-one stock split of the Company's Common Stock effected by means of a stock dividend payable on March 15, 1994.

(17) Includes 6,000 shares of Class A Common Stock issuable upon the exercise of stock options under the 1991 Non-Employee Directors' Nonqualified Stock Option Plan.

(18) Represents 36,000 shares of Class A Common Stock issuable upon the exercise of stock options.

(19) Includes (i) 23,200 shares of Class A Common Stock issuable upon the exercise of stock options presently or within 60 days of August 16, 1994 and
(ii) 4,350 shares of Class B Common Stock of the Company.

(20) Represents 4,000 shares of Class A Common Stock issuable upon the exercise of stock options.

(21) Includes (i) 11,275,996 shares of Class B Common Stock, (ii) 136,692 shares of Class A Common Stock, and (iii) 141,600 shares of Class A Common Stock issuable upon the exercise of stock options.

(22) Shares of Class B Common Stock of the Company held by members of management other than Horne family members are subject to a right of first refusal in favor of the Company.

COMPENSATION ARRANGEMENTS

Summary Compensation Table

The following table contains information with respect to the compensation for the past three fiscal years of the Company's Chairman/President/Chief Executive Officer, the four other most highly compensated executive officers (the "named executive officers") and one individual who would have been one of such four most highly compensated executive officers but who was not serving in such capacity at fiscal year ended June 30, 1994.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	FISCAL YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION		ALL OTHER COMPENSATION (\$)(2)
		SALARY (\$)	BONUS (\$)(1)	OTHER ANNUAL COMPENSATION (\$)(2)(3)	AWARDS OPTIONS (#)(4)(11)	PAYOUTS LTIP PAYOUTS (\$)(5)	
Timothy P. Horne	1994	596,838	84,503	--	40,000 (7)	--	--
Chairman of the Board,	1993	570,000	0	--	20,000 (7)	--	--
President and Chief Executive Officer	1992	550,000	75,000	--	25,000 (7)	--	--
David A. Bloss, Sr. (13)	1994	201,674	104,170	--	20,000 (7)	--	--
Executive Vice President	1993	--	--	--	--	--	--
	1992	--	--	--	--	--	--
Kenneth J. McAvoy	1994	158,340	91,760	--	30,000 (7)	--	--
Vice President of	1993	148,834	37,650	--	15,000 (7)	--	--
Finance, CFO,	1992	140,836	78,650	--	15,000 (7)	--	--
Executive V.P. of European Operations, Treasurer and Secretary							
Robert T. McLaurin	1994	143,590	75,908	--	--	--	--
Corporate Vice President	1993	135,416	31,395	--	--	--	--
of Asian Operations	1992	128,330	65,000	--	--	--	--
Martin W. Pickett (8)	1994	127,840	52,653	--	16,000(10)(12)	--	--
Corporate Vice President	1993	110,834	28,782	--	5,000(10)(12)	--	--
	1992	99,164	32,000	--	5,000(10)(12)	--	--
Charles W. Grigg (9)	1994	181,254	0	--	50,000(10)	--	--
President and Chief	1993	270,838	106,425	106,303	(7)	--	--
Operating Officer	1992	245,008	197,500	(6)	30,000(10)	--	--
				--	(7)		
					25,000(10)		
					(7)		

(1) Amounts awarded under the Executive Incentive Bonus Plan for the respective fiscal years.

(2) In accordance with the revised rules on executive compensation disclosure adopted by the Securities and Exchange Commission, as informally interpreted by the Commission's Staff, amounts of Other Annual Compensation and All Other Compensation are excluded for the Company's 1992 fiscal year.

(3) No amounts for executive perquisites and other personal benefits, securities or property are shown because the aggregate dollar amount per executive is the lesser of either \$50,000 or 10% of annual salary and bonus.

(4) Awarded under the 1986 Incentive Stock Option Plan (the "Incentive Plan") and the 1989 Nonqualified Stock Option Plan (the "Nonqualified Plan").

(5) The Company does not offer a long term incentive compensation plan to the named executive officers.

(6) Includes an interest free loan granted to Mr. Grigg by the Company in the amount of \$102,900 that was utilized for the payment of income taxes due upon the exercise of a total of 10,000 options previously granted under the Nonqualified Plan. Mr. Grigg repaid the loan to the Company in the 1994 fiscal year.

(7) Amount awarded under the Nonqualified Plan.

(8) Mr. Pickett resigned as Corporate Vice President on July 15, 1994.

(9) Mr. Grigg resigned as President, Chief Operating Officer and Director on January 18, 1994.

(10) All stock options granted, whether exercisable or not, generally lapse upon the termination of employment.

(11) All option amounts for fiscal 1994 were doubled as a result of a two-for-one stock split of the Company's Common Stock effected by means of a stock dividend payable on March 15, 1994.

(12) Amount Awarded under the Incentive Plan.

(13) Mr. Bloss joined the Company in July, 1993.

Stock Option Grants

The following table shows information concerning options to purchase the Company's Class A Common Stock granted in fiscal 1994 to the named executive officers.

Name	Options Granted (#) (1) (2)	Individual Grants (8)			Market Price on Date of Grant (\$/Sh)	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term (3)		
		% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)				0%(\$)	5%(\$)	10%(\$)
Timothy P. Horne	40,000 (4)	10.43	17.10 (6)		21.25	9-1-2003	166,000	700,560	1,520,680
David A. Bloss, Sr.	20,000 (4)	5.21	15.725 (6)		17.125	7-19-2003	28,000	243,396	573,856
Kenneth J. McAvoy	30,000 (4)	7.82	17.10 (6)		21.25	9-1-2003	124,500	525,420	1,140,510
Robert T. McLaurin	--	--	--		--	--	--	--	--
Martin W. Pickett (9)	16,000 (5)	4.17	18.00 (7)		18.00	9-1-2003	0	0	0
Charles W. Grigg (9)	50,000 (4)	13.03	17.10 (6)		21.25	9-1-2003	0	0	0

(1) All options were granted on September 1, 1993, except for the options granted to Messrs. Bloss and Pickett which were granted on July 19, 1993 and August 10, 1993, respectively.

(2) Options vest over five years at the rate of 20% per year on successive anniversaries of the respective dates on which the options were granted and generally terminate upon the earlier of the termination of employment, subject to certain exceptions, or ten years from the date of grant. Under the terms of the 1986 Incentive Stock Option Plan, the options granted to optionees who hold more than 10% of the combined voting power of all classes of stock of the Company have a maximum duration of five years from the date of grant.

(3) Based upon the market price on the date of grant and an annual appreciation at the rate stated on such market price through the expiration date of such options. The dollar amounts in these columns are the result of calculations of 0% and at the 5% and 10% rates set by the SEC and therefore are not intended to forecast possible future appreciation, if any, of the Company's stock price. The Company did not use an alternative formula for a grant date valuation, as the Company is not aware of any formula which will determine with reasonable accuracy a present value based on future unknown or volatile factors.

(4) Awarded under the Company's 1989 Nonqualified Stock Option Plan (the "Nonqualified Plan").

(5) Awarded under the Company's 1986 Incentive Stock Option Plan (the "Incentive Plan").

(6) Under the terms of the Nonqualified Plan, the exercise price of options cannot be less than 50% of fair market value.

(7) Under the terms of the Incentive Plan, the exercise price of options cannot be less than 110% of fair market value for optionees who hold more than 10% of the combined voting power of all classes of stock of the Company and 100% of fair market value for all other optionees.

(8) All share amounts have been doubled and option exercise prices and market prices of the underlying security on the date of grant have been halved as a result of a two-for-one stock split of the Company's Common Stock effected by means of a stock dividend payable on March 15,

(9) All stock options granted to an individual generally lapse upon the termination of employment. Mr. Pickett resigned as Corporate Vice President on July 15, 1994. Mr. Grigg resigned as President, Chief Operating Officer and Director on January 18, 1994. Therefore, there is no potential realizable value to report for either of these individuals.

Aggregated Option Exercises and Option Values The following table shows information concerning the exercise of stock options during fiscal year 1994 by each of the named executive officers and the fiscal year-end value of unexercised options.

Name	Shares Acquired on Exercise(#)	Value Realized(\$) (1)	Number of Unexercised Options at Fiscal Year End(2) (5)		Value of Unexercised In-the-Money Options at Fiscal Year End(\$ (3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Timothy P. Horne	42,424(4)	669,057.50(4)	--	137,788	--	1,115,302.50
David A. Bloss, Sr.	--	--	--	20,000	--	150,500
Kenneth J. McAvoy	7,800(4)	199,875(4)	18,000	90,000	116,460	696,810
Robert T. McLaurin	--	--	20,000	8,000	138,400	61,600
Martin W. Pickett (6)	1,000(4)	27,250(4)	5,900	34,000	5,137.50	133,500
Charles W. Grigg (6)	30,093(4)	519,313.50(4)	--	--	--	--

(1) Represents the difference between the market price on the date of exercise and the exercise price of the options.

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

(3) Represents the difference between the market price on the last day of the fiscal year and the exercise price of the options.

(4) Share amounts and dollar values are shown as of the dates of exercise which occurred prior to the date of the two-for-one stock split referred to in Note (5) below.

(5) All option amounts were doubled and option exercise prices were halved as a result of a two-for-one stock split of the Company's Common Stock effected by means of a stock dividend payable on March 15, 1994.

(6) All stock options granted to an individual generally lapse upon the termination of employment. Mr. Grigg resigned on January 18, 1994 as President, Chief Operating Officer and Director. Therefore, Mr. Grigg possessed no options at fiscal year end.

1991 Non-Employee Directors' Nonqualified Stock Option Plan. Stock options granted under the 1991 Non-Employee Directors' Nonqualified Stock Option Plan (the "Directors' Plan") are granted automatically and without any further action on the part of the Board of Directors as of November 1 in each year commencing in 1991 (with respect to each year, the "Grant Date"). The Directors' Plan provides that options to purchase 2,000 shares of Class A Common Stock (or such lesser amount as shall enable each non-employee Director then in office to receive an equal grant in the event that there are not sufficient shares of Class A Common Stock for each such non-employee Director to receive a grant of 2,000 shares) shall be granted to each non-employee Director duly elected and serving as such on each Grant Date.

The purchase price of shares which may be purchased under the Directors' Plan is \$22.75, which is equal to the closing sale price of the Class A Common Stock on the over-the-counter market on October 18, 1991 (as adjusted for the March, 1994 two-for-one split of the Company's Common Stock), as reported by the National Market System of NASDAQ.

Options granted under the Directors' Plan are exercisable when granted, but no option is exercisable after the earlier of (a) the date ten years after the Grant Date or (b) the date on which the Director to whom such options were granted ceases for any reason to serve as a Director of the Company; provided, however, that in the event of termination as a result of disability or death, the Director or his personal representative may exercise any outstanding options not theretofore exercised during the 90-day period following such disability or death.

The Directors' Plan is administered by the Board of Directors or an authorized committee thereof in accordance with Rule 16b-3 under the Exchange Act. The Board of Directors or an authorized committee thereof determines the form of options granted under the Directors' Plan and makes other determinations and interpretations concerning the Directors' Plan and options granted thereunder.

During fiscal 1994, Messrs. Herndon, Moran and Murphy, being all the non-employee Directors of the Company on the Grant Date, were each granted options to purchase 2,000 shares of Class A Common Stock (as adjusted for the March, 1994 stock split) under the Directors' Plan.

Pension Plan

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

The annual normal retirement benefit for employees under the Pension Plan is 1.67% of Final Average Compensation (as defined in the Pension Plan) multiplied by years of service (maximum 25 years), reduced by the Maximum Offset Allowance (as defined in the Pension Plan). For the 1994 Pension Plan year, Annual Compensation in excess of \$150,000 per year is disregarded under the Pension Plan for all purposes. However, benefits accrued prior to the 1994 plan year may be based on compensation in excess of \$150,000. Compensation recognized under the Pension Plan includes base salary and annual bonus.

The Supplemental Plan provides additional monthly benefits to individuals who were projected to receive reduced benefits as a result of changes made to the Pension Plan to comply with the Tax Reform Act of 1986 or who will be affected by IRS limits on Pension Plan Compensation.

The annual normal retirement benefit payable from the Supplemental Plan is equal to the difference between (1) the pre-Tax Reform Act promise of 45% of Final Average Compensation less 50% of the participant's Social Security Benefit, the result prorated for years of service less than 25 and (2) the Pension Plan formula above with Annual Compensation in excess of \$175,000 disregarded. For eligible employees who were not plan participants of the Pension Plan as of January 1, 1989, the benefit under the Supplemental Plan is based on the Pension Plan formula set forth above, with Annual Compensation in excess of \$242,283 disregarded. For the 1994 Plan Year, Annual Compensation in excess of \$302,863 is disregarded for all purposes under the Supplemental Plan. Compensation recognized under the Supplemental Plan is W-2 pay.

The following table illustrates total annual normal retirement benefits (payable from both the Pension Plan and from the Supplemental Plan and assuming attainment of age 65 during 1994) for various levels of Final Average Compensation and years of benefit service, prior to application of the Social Security offset, which is an integral part of the benefits payable under the Supplemental Plan.

Final Average Compensation for Five Highest Consecutive Years in Last 10 Years:	Estimated Total Annual Retirement Benefit (Pension Plan plus Supplemental Plan) Based on Years of Service (1)			
	10 Years	15 Years	20 Years	25 Years or more
\$100,000	\$18,000	\$27,000	\$ 36,000	\$ 45,000
150,000	27,000	40,500	54,000	67,500
200,000	31,825	47,738	63,650	79,563
250,000	40,825	61,238	81,650	102,063
300,000	49,825	74,738	99,650	124,563
350,000	50,340	75,511	100,681	125,851

(1) The annual Pension Plan benefit is computed on the basis of a straight life annuity.

Messrs. Timothy P. Horne, Bloss, McAvoy, McLaurin, Pickett and Grigg have 35, 1, 13, 16, 5 and 10 years, respectively, of benefit service under the Pension Plan. Eligible employees are currently limited to a maximum annual benefit under the Pension Plan of \$118,800 (subject to cost of living adjustments) under Internal Revenue Code requirements regardless of their years of service or Final Average Compensation. Accordingly, under current salary levels and law, Mr. Timothy P. Horne's annual benefit would be limited to such amount.

Employment, Termination, Supplemental and Deferred Compensation Agreements On May 1, 1993, the Company entered into an Employment Agreement with Mr. Horne providing for annual base salary of at least \$570,000 plus other benefits and bonuses generally available to senior executives of the Company. The Employment Agreement provides for the employment of Mr. Horne as Chairman of the Board and Chief Executive Officer of the Company for a period of not less than four years and is terminable by Mr. Horne on thirty days notice. The Employment Agreement supersedes all prior employment agreements between the Company and Mr. Horne. Under the Employment Agreement, if Mr. Horne shall, without his consent, cease to be, or cease to have the responsibilities and duties of, Chairman of the Board of Directors of the Company and Chief Executive Officer other than for a willful illegal act relating to the performance of his duties, or if he shall be assigned duties inconsistent with those previously performed by him, he shall be entitled to terminate his employment upon notice and, if so terminated, he shall be entitled to receive a severance payment equal to the greater of (i) the compensation which would have been payable under the Employment Agreement at the base salary in effect on the termination date for the balance of the original term thereof or (ii) two years' compensation at that rate.

Under a Supplemental Compensation Agreement, effective as of May 1, 1993, Timothy P. Horne is entitled to receive annual payments during his lifetime following his retirement or other termination of employment with the Company equal to the greater of (a) one-half of the average of his base salary for the three years immediately preceding such retirement or termination or (b) \$350,000. During this period Mr. Horne will be available as a consultant to the Company for 300 to 500 hours per year.

Mr. Horne is also entitled under a Deferred Compensation Agreement to retirement benefits aggregating \$233,333 payable over a period of 28 consecutive months commencing upon the earliest of his retirement, attainment of the age of 65 or other termination of employment. The Deferred Compensation Agreement represents compensation which Mr. Horne deferred prior to the Company's past three fiscal years. The Company has fully expensed its obligations under this Deferred Compensation Agreement.

Stock Option and Compensation Committee Report The Stock Option and Compensation Committee is currently composed of Messrs. Murphy and Herndon and Ms. Lane. Mr. Murphy is the Chairman of the Committee. The three members of the Stock Option and Compensation Committee are non-employee directors and are ineligible to participate in any of the compensation plans which are administered by the Committee.

In accordance with the rules adopted by the Securities and Exchange Commission, the Stock Option and Compensation Committee will report on the compensation and benefits provided in fiscal 1994 to Timothy P. Horne, David A. Bloss, Sr., Kenneth J. McAvoy, Robert T. McLaurin, Martin W. Pickett and Charles W. Grigg.

Compensation Philosophy

The Company's executive compensation program is designed to promote corporate performance and thereby enhance stockholder returns. The Committee believes that executives should have a greater portion of their compensation tied directly to performance, both of the business and of individual objectives established by management. To this end, overall compensation strategies and specific compensation plans have been developed to tie a significant portion of executive compensation to the success in meeting specified performance goals. The overall objectives of this strategy are to attract and retain the best possible executive talent, to motivate executives to achieve goals inherent in the Company's business strategy, to link executive and stockholder interests and to provide compensation packages that recognize individual contributions as well promote achievement of business goals.

The key elements of the Company's executive compensation program consists of three components, each of which is intended to serve the overall compensation philosophy: base salary, an annual bonus and stock options granted under either the 1986 Incentive Stock Option Plan or the 1989 Nonqualified Stock Option Plan. These programs, as well as the basis for Mr. Timothy P. Horne's compensation in fiscal 1994, are discussed below.

Base Salary

Base salaries for executive officers are initially determined by evaluating the responsibilities of the position held and the experience of the individual, coupled with a review of the base salaries for comparable positions at other companies.

Executive's base salaries are reviewed on an annual basis following the close of the fiscal year and completion of the audit of the Company's financial results by the independent auditors. Adjustments are determined by evaluating the performance of the Company and each executive officer. The performance of executive officers with functional or administrative responsibilities is considered by reviewing the quality and efficiency of administrative and functional processes. In the case of executive officers with responsibility for one or more business units within the Company, the business results of those units are also considered. The Committee also considers, where appropriate, certain non-financial performance measures, such as increase in market share, market expansion, corporate development and acquisitions, achievement of manufacturing efficiencies, improvements in product quality and/or relations with customers, suppliers or employees. Adjustments in base salary are also made when and as appropriate to reflect changes in job responsibilities.

The Committee believes that the Company's most direct competitors for executive talent are not necessarily all of the companies that would be included in the peer group established to compare shareholder returns. Thus, the compensation packages which may be considered during the Company's compensation review process are not the same group as the peer group index in the Comparison of Five Year Cumulative Total Return graph included in this proxy statement.

The base salary received by Mr. Timothy P. Horne in fiscal 1994 was \$596,838, an increase of 4.5% from \$570,000 in the prior fiscal year. Under the terms of an Employment Agreement with the Company, Mr. Horne's base salary was established in 1993 at \$570,000, subject to a guaranteed annual adjustment equal to the increase in the Consumer Price Index for all Urban Consumers, with such other additional increase, if any, as the Committee deems appropriate in its discretion. The CPI increased by approximately 3.0% from June 1992 to June 1993, the twelve month period immediately prior to the Committee's adjustment in Mr. Horne's base salary for fiscal 1994.

The key performance measure the Committee used in determining Mr. Horne's compensation for fiscal 1994 was its assessment of his ability and dedication to enhance the long-term value of the Company through continuation of the leadership and vision he has provided during his tenure as Chairman, President and CEO. Under his leadership, the sales of the Company have experienced a compounded annual growth rate of approximately 17%.

Annual Bonus

The Company's executive officers are eligible for an annual cash bonus. Individual and corporate performance objectives are established at or near the beginning of each fiscal year by the Chairman/President/Chief Executive Officer in consultation with the Executive Vice President and the Chief Financial Officer. These objectives are then reviewed by the Committee. Once established, eligible executives are assigned threshold, target and maximum bonus levels. Each participant in the plan is assigned a percentage, based upon the participant's position in the Company, of base salary as a target upon which the bonus is calculated.

The Committee believes that a significant portion of executive compensation should be tied to an annual bonus potential based on performance of specified objectives. During fiscal 1994, the Company's net income increased by 15%. This represents a significant reversal from the 5% decline in net income experienced during fiscal 1993. As a result, the annual bonus payments for fiscal 1994 were more than the prior year with respect to all of the named executive officers.

Under the Employment Agreement, Mr. Timothy P. Horne is eligible for an annual bonus in an amount to be determined by the Committee based upon such factors as the Committee deems appropriate. Mr. Horne received a bonus of \$84,503 for fiscal 1994. The Committee believes that Mr. Horne's continued leadership and focus on the long-term growth of the Company were significant factors in contributing to the 15% increase in net income for fiscal 1994.

Stock Options

Under the Company's 1986 Incentive Stock Option Plan and 1989 Nonqualified Stock Option Plan, both of which were approved by the stockholders, stock options may be granted to the Company's executive officers. The

Committee sets guidelines for the size of stock option awards based on similar factors as used to determine base salaries and annual bonuses, including corporate performance and individual performance against objectives. Stock options are the principal vehicle for the payment of long-term compensation. This component of compensation is intended to motivate executives to improve stock market performance.

Stock options are designed to align the interests of the executives with those of the stockholders as the full benefit of the compensation package will not be realized unless stock appreciation occurs over a number of years. Stock options under the Incentive Plan are typically granted annually and vest 20% per year over five years beginning with the first anniversary of the grant date. Under the Incentive Plan, the exercise price equals the market price of the Common Stock on the date of the grant with an exception for executives who own more than 10% of the combined voting power of the Company; for those employees the exercise price is equal to 110% of the market price on the date of the grant. Stock options under the Nonqualified Plan have an exercise price which may be no less than 50% of the market price on the date of the grant. The duration of options under either plan is generally 10 years, with the exception of grants under the Incentive Plan to owners of more than 10% of the combined voting power of the Company, in which case such grants terminate after 5 years.

Options are normally granted in the fall following the close of the fiscal year in order to provide the Committee with an opportunity to review the fiscal year performance, both of individual and business goals.

On September 1, 1993, Mr. Timothy P. Horne received options under the Nonqualified Plan to purchase 20,000 shares with an exercise price of \$34.20, which represents 80% of the fair market value of \$42.50 on the grant date (share amounts and dollar values are shown as of the date of grant which is prior to the March, 1994 stock split). This is the same number of options which were granted to Mr. Horne for the fiscal year ended June 30, 1992. Mr. Horne holds a significant equity interest in the Company.

Conclusion

Through the programs described above, a very significant portion of the Company's executive compensation is linked to individual and corporate performance and stock appreciation. The Stock Option and Compensation Committee intends to continue the policy of linking executive compensation to corporate performance and enhancement of stockholder returns.

Stock Option and Compensation Committee

Daniel J. Murphy, III (Chairman)

Noah T. Herndon

Wendy E. Lane

Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on the Company's Class A Common Stock, based on the market price of the Common Stock, with the cumulative return of companies on the Standard & Poor's 500 Stock Index and a peer group of companies engaged in the valve and pump industries, for a period of five fiscal years commencing June 30, 1989 and ended June 30, 1994. The performance indicator of peer group companies consists of Keystone International, Inc., Bw Ip, Inc., Zurn Industries, Inc., Goulds Pumps, Inc. and Duriron, Inc. The graph assumes that the value of the investment in the Company's Class A Common Stock and each index was \$100 at June 30, 1989 and that all dividends were reinvested.

COMPARISON OF FIVE YEAR CUMULATIVE TOTAL RETURN AMONG WATTS INDUSTRIES, INC., THE S&P 500 INDEX AND A PEER GROUP

[TABULAR REPRESENTATION OF LINE GRAPH]

	Cumulative Total Return					
	6/30/89	6/30/90	6/30/91	6/30/92	6/30/93	6/30/94
Watts Industries, Inc.	100	129	157	157	121	152
Peer Group	100	130	136	143	151	118
S&P 500	100	116	125	142	161	163

Certain Transactions

George B. Horne, the father of Timothy P. Horne and Frederic B. Horne, receives monthly payments of \$7,959 (\$95,505 annually) from the Watts Regulator Co. Retirement Plan for Salaried Employees.

Compliance with Section 16(a) of the Securities Exchange Act of 1934 During fiscal year 1994, Charles W. Grigg, a former director and executive officer of the Company, failed to file with the Securities and Exchange Commission ("SEC") on a timely basis reports on Form 4 for the months of December 1993 and January 1994 relating to a total of 5 transactions.

In making these disclosures, the Company has relied solely upon written representations of its Directors and executive officers and copies of the reports that they have filed with the SEC.

PROPOSAL 2

RATIFICATION OF INDEPENDENT AUDITORS

Although Delaware law does not require that the selection by the Directors of the Company's independent auditors be approved each year by the stockholders, the Directors believe it is appropriate to submit the selection of independent auditors to the stockholders for their approval and to abide by the result of the stockholders' vote. Upon the recommendation of the Audit Committee of the Board, the Directors have recommended that the stockholders ratify the selection of Ernst & Young as the Company's independent auditors for fiscal 1995.

The Company expects that a representative of Ernst & Young will be present at the meeting and will be given the opportunity to make a statement if he or she wishes to do so. This representative is also expected to be available to respond to questions from stockholders.

Holders of voting rights sufficient to ratify the selection of Ernst & Young as independent auditors have indicated an intention to vote in favor of this proposal.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL.

PROPOSAL 3

AMENDMENT TO THE RESTATED CERTIFICATE OF INCORPORATION AUTHORIZING ADDITIONAL SHARES OF CLASS A AND CLASS B COMMON STOCK

The presently authorized capital stock of the Company consists of 40,000,000 shares of Class A Common Stock, par value \$.10 per share, 13,000,000 shares of Class B Common Stock, par value \$.10 per share, and 5,000,000 shares of Preferred Stock, par value \$.10 per share. On August 16, 1994, there were issued and outstanding 18,013,522 shares of Class A Common Stock, 11,472,470 shares of Class B Common Stock and no shares of Preferred Stock. An aggregate of 14,684,416 additional shares of Class A Common Stock were reserved for issuance under the 1986 Plan, the 1989 Plan, the 1991 Non-Employee Directors' Nonqualified Stock Option Plan, and conversion of shares of Class B Common Stock into shares of Class A Common Stock pursuant to the terms of the Restated Certificate of Incorporation. Accordingly, on that date there were 7,302,062 and 1,527,530 unissued and unreserved shares of Class A Common Stock and Class B Common Stock, respectively.

The Board of Directors recommends that the first paragraph of Article FOURTH of the Company's Restated Certificate of Incorporation be amended and restated to increase the aggregate number of authorized shares of capital stock of the Company, of the Company's Class A Common Stock, and of the Company's Class B Common Stock from 58,000,000 shares, 40,000,000 shares, and 13,000,000 shares to 110,000,000 shares, 80,000,000 shares, and 25,000,000 shares, respectively. The proposed amendment would not affect the number of authorized shares of Preferred Stock, the number of issued and outstanding shares of Class A Common Stock or Class B Common Stock or the relative rights, powers or preferences of any class of the Company's capital stock. There are no preemptive rights with respect to the Company's Class A Common Stock, Class B Common Stock or Preferred Stock. The Board of Directors has adopted a resolution approving the proposed amendment, declaring the proposed amendment advisable and recommending that it be approved by the Company's stockholders at the 1994 Annual Meeting.

The Board of Directors believes that the authorization of an additional 40,000,000 shares of Class A Common Stock and 12,000,000 shares of Class B Common Stock will benefit the Company and its stockholders by providing additional flexibility for the Board in connection with a variety of corporate matters. The newly authorized shares, together with the shares that are presently authorized but unissued would be available for such general corporate purposes as the Board of Directors may determine, including, without limitation, public offerings, private placements, acquisitions, stock options and other benefit arrangements and stock dividends or splits. The Board of Directors will consider such uses from time to time as circumstances warrant and has no current plans to issue shares of Class A Common Stock or Class B Common Stock.

No shares of Class B Common Stock may be issued without the affirmative vote of the holders of a majority of the outstanding shares of the Company's Class A Common Stock and Class B Common Stock, voting as separate classes, except where a stock dividend has been declared by the Board of Directors on all of the outstanding capital stock of the Company, in which case additional shares of Class B Common Stock will be issued as dividends to holders of the Class B Common Stock. The newly authorized shares of Class A Common Stock generally would

be issuable in the discretion of the Board of Directors without stockholder approval, except as required by applicable laws, rules or regulations. In this regard, the rules of the National Association of Securities Dealers, Inc. for issuers whose securities are quoted on its National Market System, including the Company, would generally require stockholder approval of certain stock issuances including, among others, issuances in connection with the acquisition of the stock or assets of another entity that result in an increase of 20% or more of the outstanding shares of Class A Common Stock. Any issuance of Class A Common Stock (other than stock dividends and stock splits) would reduce the percentage of equity ownership and voting power of all existing stockholders.

Vote Required. Amending the Company's Restated Certificate of Incorporation in the manner described above requires the affirmative vote of the holders of a majority of the outstanding shares of the Company's Class A Common Stock and Class B Common Stock, voting as separate classes. The holders of the Company's Class A Common Stock and Class B Common Stock are entitled to one vote and ten votes for each share held, respectively. Holders of shares of Class B Common Stock sufficient to approve the proposed amendment on behalf of such class have indicated an intention to vote for the proposed amendment. Assuming receipt of stockholder approval for the proposed amendment, the Company will file a Certificate of Amendment effecting the proposed amendment with the Secretary of State of Delaware. It is anticipated that the Certificate of Amendment will be filed on and become effective at the close of business on October 18, 1994. Upon filing of the Certificate of Amendment, all stockholders will be bound by the amendments, whether or not they have voted in favor of it.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL.

OTHER MATTERS

The Board of Directors is not aware of any other matters which may come before the meeting. If any other matters shall properly come before the meeting, it is the intention of the persons named in the enclosed proxy to vote the proxy in accordance with their judgment on any such matters.

STOCKHOLDER PROPOSALS

In order for any stockholder proposal to be included in the proxy statement for the Company's 1995 Annual Meeting of Stockholders, such proposal must be received at the principal executive offices of the Company, 815 Chestnut Street, North Andover, MA 01845, not later than May 17, 1995 and must satisfy certain rules of the Securities and Exchange Commission.

Nominations and proposals of stockholders may also be submitted to the Company for consideration at the 1995 Annual Meeting if certain conditions set forth in the Company's By-laws are satisfied, but will not be included in the proxy materials unless the conditions set forth in the preceding paragraph are satisfied. Such nominations (or other stockholder proposals) must be delivered to or mailed and received by the Company not less than 75 days nor more than 120 days prior to the anniversary date of the 1994 Annual Meeting. If the date of the 1995 Annual Meeting is subsequently moved to a date more than seven days (in the case of Director nominations) or ten days (in the case of other stockholders proposals) prior to the anniversary date of the 1994 Annual Meeting, the Company will publicly disclose such change and nominations or other proposals to be considered at the 1995 Annual Meeting must be received by the Company not later than the 20th day after such disclosure (or, if disclosed more than 75 days prior to such anniversary date, the later of 20 days following such disclosure or 75 days before the date of the 1995 Annual Meeting, as rescheduled). To submit a nomination or other proposal, a stockholder should send the nominee's name or proposal and appropriate supporting information required by the Company's By-Laws to the Secretary of the Company at the address set forth above.

PROXY

WATTS INDUSTRIES, INC.
815 Chestnut Street, North Andover, MA 01845

Proxy for Class A Common Stock

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS The undersigned hereby appoints Timothy P. Horne and Kenneth J. McAvoy, and each of them acting solely, proxies, with power of substitution and with all powers the undersigned would possess if personally present, to represent and vote, as designated below, all of the shares of Class A Common Stock of Watts Industries, Inc. which the undersigned is entitled to vote at the Annual Meeting of Stockholders of Watts Industries, Inc. to be held in the Phillips Room of The Andover Inn at Phillips Academy, Chapel Avenue, Andover, Massachusetts, on Tuesday, October 18, 1994 at 10:00 a.m. (Boston time), and at any adjournment(s) or postponement(s) thereof, upon the matters set forth on the reverse side hereof and described in the Notice of Annual Meeting of Stockholders and accompanying Proxy Statement and upon such matters as may properly be brought before such meeting and any adjournment(s) or postponement(s) thereof.

The undersigned hereby revokes any proxy previously given in connection with such meeting and acknowledges receipt of the Notice of Annual Meeting and Proxy Statement for the aforesaid meeting and the 1994 Annual Report to Stockholders.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE
SEE REVERSE
SIDE

[X] Please mark
votes as in
this example

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no instruction is indicated with respect to Items 1, 2 and 3 below, the undersigned's votes will be cast in favor of such matters. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

1. To elect eight Directors to hold office until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

Nominees: Timothy P. Horne, David A. Bloss, Sr., Frederic B. Horne, Kenneth J. McAvoy, Noah T. Herndon, Wendy E. Lane, Gordon W. Moran and Daniel J. Murphy, III.

FOR [] WITHHELD []

[] For all nominees except as noted above

2. To ratify the selection of Ernst & Young as the independent auditors of the Company for the current fiscal year.

FOR [] AGAINST [] ABSTAIN []

3. To approve an amendment to the Company's Restated Certificate of Incorporation increasing the number of authorized shares of Class A Common Stock from 40 million shares to 80 million shares and increasing the number of authorized shares of Class B Common Stock from 13 million shares to 25 million shares, with a corresponding increase in the capital stock, as described in the Proxy Statement.

[] [] [] MARK HERE FOR ADDRESS CHANGE AND NOTE AT LEFT []

Sign exactly as name appears on this Proxy. If the shares are registered in the names of two or more persons, each should sign. Executors, administrators, trustees, partners, custodians, guardians, attorneys and corporate officers should add their full titles as such.

Signature: Date

Signature: Date

PROXY

WATTS INDUSTRIES, INC.
815 Chestnut Street, North Andover, MA 01845

Proxy for Class B Common Stock

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS The undersigned hereby appoints Timothy P. Horne and Kenneth J. McAvoy, and each of them acting solely, proxies, with power of substitution and with all powers the undersigned would possess if personally present, to represent and vote, as designated below, all of the shares of Class B Common Stock of Watts Industries, Inc. which the undersigned is entitled to vote at the Annual Meeting of Stockholders of Watts Industries, Inc. to be held in the Phillips Room of The Andover Inn at Phillips Academy, Chapel Avenue, Andover, Massachusetts, on Tuesday, October 18, 1994 at 10:00 a.m. (Boston time), and at any adjournment(s) or postponement(s) thereof, upon the matters set forth on the reverse side hereof and described in the Notice of Annual Meeting of Stockholders and accompanying Proxy Statement and upon such matters as may properly be brought before such meeting and any adjournment(s) or postponement(s) thereof.

The undersigned hereby revokes any proxy previously given in connection with such meeting and acknowledges receipt of the Notice of Annual Meeting and Proxy Statement for the aforesaid meeting and the 1994 Annual Report to Stockholders.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE
SEE REVERSE
SIDE

[X] Please mark
votes as in
this example

This proxy when properly executed will be voted in the manner directed herein by the undersigned stockholder. If no instruction is indicated with respect to Items 1, 2 and 3 below, the undersigned's votes will be cast in favor of such matters. PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.

1. To elect eight Directors to hold office until the next Annual Meeting of Stockholders and until their successors are duly elected and qualified.

Nominees: Timothy P. Horne, David A. Bloss, Sr., Frederic B. Horne, Kenneth J. McAvoy, Noah T. Herndon, Wendy E. Lane, Gordon W. Moran and Daniel J. Murphy, III.

FOR [] WITHHELD []

For all nominees except as noted above

2. To ratify the selection of Ernst & Young as the independent auditors of the Company for the current fiscal year.

FOR [] AGAINST [] ABSTAIN []

3. To approve an amendment to the Company's Restated Certificate of Incorporation increasing the number of authorized shares of Class A Common Stock from 40 million shares to 80 million shares and increasing the number of authorized shares of Class B Common Stock from 13 million shares to 25 million shares, with a corresponding increase in the capital stock, as described in the Proxy Statement.

[] [] [] []

Sign exactly as name appears on this Proxy. If the shares are registered in the names of two or more persons, each should sign. Executors, administrators, trustees, partners, custodians, guardians, attorneys and corporate officers should add their full titles as such.

Signature: Date

Signature: Date

WATTS INDUSTRIES, Inc.

(FRONT COVER GRAPHICS: Pictures of valves)

ANNUAL REPORT
1994

(LOGO)

(INSIDE FRONT COVER)

(Descriptions of valves on front cover)

Contromatics
Actuated
Butterfly Valve

KF Industries
Top Entry Valve

Circle Seal Controls
Motor Operated Valve

Leslie Controls
Aeroflow(TM)
Control Valve

Henry Pratt Company
Butterfly Valve

Watts Regulator Company
Water Pressure
Reducing Valve

KF Industries
Three-Way Trunnion
Ball Valve

Spence Engineering
Company
Steam Pressure
Reducing
Valve

Watts ACV
Automatic Control Valve

Watts Regulator Company
Actuated
Ball Valve

Watts Regulator Company
Backflow Preventer

ANNUAL REPORT

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Water Quality	6-7
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A LEADER IN VALVE TECHNOLOGY
WATTS(R)
INDUSTRIES, INC.
SINCE 1874

Watts Industries: Committed to the achievement of sustained long-term growth. (Fifteen year history)

[Graph of Net Sales showing a Compounded Annual Growth Rate of 17%]

[Graph of Net Income showing a Compounded Annual Growth Rate of 19%]

[Graph of Stockholders' Equity showing a Compounded Annual Growth Rate of 20%]

To Our Shareholders

Watts achieved yet another record year for both sales and earnings. This performance marked the 18th consecutive year of increased sales and 17th of 18 years of record net income.

Net sales for Fiscal 1994 increased 11% to \$519 million and net income increased 50% to \$41 million. Excluding the unusual charges and the cumulative effect of the tax accounting change in Fiscal 1993, net income increased 18% and the fully diluted earnings per share were \$1.38 versus \$1.16 last year.

Acquisition activity included two Canadian-based manufacturers of traps and drains for commercial, industrial, and institutional construction. Ancon and Enpoco were acquired during the first half of Fiscal 1994. With combined annual sales of approximately \$12 million, these companies have a significant share of the Canadian market and will add strong product lines to our domestic plumbing product range during Fiscal 1995.

Many weeks were devoted to business trips to Asia to explore the region's unfolding growth markets, including China. The first tangible result of these efforts was the commencement on September 1st of a joint venture with the Tianjin Tangu Valve Plant of the People's Republic of China, in which Watts has a 60% controlling investment. Tangu, an established ISO 9001 certified manufacturer, sells its butterfly, globe, and check valves to 29 provinces and autonomous regions in China and exports to the United States, Europe, Australia, and Southeast Asia. We expect there will be further joint ventures in China during Fiscal 1995. In addition to water and industrial, our focus will be on the valve markets for oil and gas, power generation, and central steam heating.

Sales were flat in Europe owing to the recession which continued throughout Fiscal 1994. Some of the impact of the recession was offset by the rebuilding of former East Germany, and the developing markets of Poland, Czech Republic, Hungary, Slovakia, and other emerging Eastern European markets. Our consolidation of the acquired companies and product lines resulted in an operating profit of 14%. Any increase in sales volume during Fiscal 1995 should have a meaningful impact upon operating earnings because of the leverage now established.

Europe continues to be an area of opportunity for growth by acquisition. Watts will also continue to explore the world markets for joint ventures and acquisitions. Our near-term Corporate objective is to increase international business as a percent of total sales. International sales, including Canada, increased as a percent of sales from 23% in Fiscal 1993 to 29% during 1994.

Domestically, our growth was led by the Watts Regulator Company and its water-oriented Plumbing and Heating, Water Quality (backflow preventers), and OEM Divisions. The sales for these divisions increased by 10% from \$150 million in Fiscal 1993 to \$165 million in Fiscal 1994. A return to some normalization within their traditional markets, including a strong rebound in residential construction, helped these divisions in their record performance.

Strong sales growth was also experienced within the oil and gas segment led by KF Industries. KF's sales increased by 14% from \$57 million in Fiscal 1993 to \$65 million in Fiscal 1994. This increase was derived primarily from a strong international market, especially in gas transmission pipeline projects.

On July 28, 1994, Watts announced the acquisition of Jameco Industries, a domestic manufacturer of valves and plumbing hardware sold through wholesale plumbing and heating distribution and to the DIY (do-it-yourself) market. Jameco, with sales of \$56 million for the twelve months ending June 30, 1994, represents one of our largest acquisitions to date. Its complementary fit with the Watts Regulator Plumbing and Heating Division should enhance both companies in presenting one of the largest arrays of plumbing products available to the U.S. market.

We remain committed to our goal of double-digit growth with the ambitious objective of reaching \$1 billion in sales by the end of the decade. Including the latest acquisitions, we expect our sales will exceed \$600 million in Fiscal 1995. With more financial resources allocated to new product development, the prospect of improving markets for more of our business segments, and our ongoing acquisition search, we are optimistic about future growth prospects.

[Signature of Timothy P. Horne]

Timothy P. Horne
Chairman of the Board, President,
and Chief Executive Officer

[Photograph of Timothy P. Horne]

During the past ten years, Watts has embarked on an aggressive growth plan resulting in acquisitions of 28 valve companies that represented more than 60% of our sales during Fiscal 1994. In doing so, we have diversified the company into new valve markets and added important product lines. Our sales have grown at a compounded growth rate of 17% during this period as each year set new sales records for the company.

Our ability to successfully grow at this pace can be attributed to a number of factors, but primarily to our commitment and focus on what we know best - the valve industry. Having achieved a milestone of over \$500 million in sales, our next objective is to double our size within the next five years. During Fiscal 1994, we dedicated ourselves to setting the stage for this growth through a series of measures:

[Photograph of David A. Bloss, Sr., Executive Vice President]

1. Organized businesses according to markets served: Within the United States, we have organized our independently-operated businesses into four strategic groups focused on major valve markets: Plumbing & Heating and Water Quality, Municipal Water, Industrial and Oil & Gas, and Steam. This alignment will allow us to offer extensive product lines and capitalize on economies of scale to achieve greater market share and profitability.
2. Expanded our international scope to Asia: To achieve global market participation, we are positioning ourselves for the tremendous growth that is expected in the Asian markets. Our initial focus is the People's Republic of China where significant capital expenditures are anticipated to develop its domestic infrastructure. Our objective is to leverage our valve technology and manufacturing expertise by joint ventures with manufacturers in China who serve the region's valve markets for municipal water, oil and gas, and steam applications.
3. New product development: During Fiscal 1994, we directed substantial capital and human resources to new product development. A key initiative was the formation of teams within our businesses to identify, engineer and commercialize new products to strengthen our position in our target markets.
4. Improved employee development and communication: "Developing tomorrow's leaders today" is a pervasive theme in our efforts to create an organizational environment that supports our growth objectives. During the past year, we have organized employee work-group sessions to inspire creativity and develop key leadership skills. These ongoing sessions are also designed to promote information sharing between business units to identify opportunities to improve sales and operating performance. We have already seen tangible results.

[Photograph of Kenneth J. McAvoy, Chief Financial Officer and Executive Vice President of European Operations]

We believe that these strategic moves will assist us in our efforts to achieve our \$1 billion sales objective by the end of this decade. The following pages describe how we are addressing each of our major market segments and identify the significant activities of the past year.

- - - -----

Tianjin Tanggu Valve Company	[Photo of Business License of the Joint Venture]	[Photos]
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Joint Tianjin Tanggu Watts Valve Company, Ltd. Venture

Industrial and
Oil & Gas

Watts' oil and gas companies supply valves to the major independent petroleum and natural gas production companies worldwide, while the Watts Regulator Industrial Division supplies valves to the domestic markets for petrochemical, process control, severe service, and fugitive emission control. The Industrial and Oil & Gas Group supplies a comprehensive line of valves to its market, including ball valves, check valves, butterfly valves and needle valves.

Building on their strength of having one of the broadest product lines, the oil and gas companies and the Industrial Division have consolidated most of their domestic field sales representation. This allows the Group to offer a more complete valve package to its customers. The integrated marketing effort is more efficient and less costly than the prior system, and eliminates the potential for confusion and overlap at the distributor and end-user levels.

Domestic demand for industrial valves was comparable to last year. However, earnings for the Industrial Division grew as cost reduction efforts, product consolidations and a greater emphasis on engineered products improved margins. Domestic chemical and petrochemical companies are shifting their capital investment projects to offshore locations, primarily to be closer to raw material extraction sites. Therefore, we are targeting sales and marketing efforts to become a more significant participant in valve purchases for international projects during Fiscal 1995. Operating the Industrial Division and oil and gas companies as one group with coordinated distribution for the two market segments provides an efficient and expedient method of delivering Watts' valves to the changing world markets.

Domestic demand for oil and gas products increased moderately during the fiscal year, while international results, reflecting the ever more global economy, showed robust growth. KF Industries actively marketed overseas and supported these efforts with a strong new product development program and rapid deliveries. Overall, the oil and gas business enjoyed strong growth in sales and earnings.

During the year, the Group leveraged its resources by opening a new valve automation and repair center in Houston, Texas, to provide distributors and end users with factory-authorized automation and repair of quarter-turn valve products. Automation and repair will strengthen Watts' competitive position in the domestic and international marketplace. Furthermore, the Group has established regional offices in Singapore and London and is focusing its attention on developing joint ventures in China, Indonesia and Venezuela during the coming year.

[Photograph of Alfred S. Schommer, Group Vice President Industrial and Oil & Gas]

Allied with our Industrial Division is Circle Seal Controls, Inc., which supplies valves to the aerospace, industrial and cryogenic markets.

[Photo] [Photo of a valve]
KF Industries, Inc.
Oklahoma City, OK

[Pie Graph Showing Percentages of
Oil & Gas (13%) and Industrial (12.4%)
in the Industrial, Oil & Gas Market]

[Photo]
Watts Regulator Industrial Division
Milford, NH

Plumbing & Heating
and Water Quality

Watts serves the Plumbing and Heating and Water Quality markets with a comprehensive line of valve products. These include temperature and pressure relief valves for water heaters, water pressure reducing valves to regulate water pressures within the home and high-rise buildings, and backflow preventers to protect potable water systems from the potential hazard of water backflowing from contaminated sources downstream. The application of these products is generally enforced by strict national and regional plumbing codes and, in the case of backflow preventers, is supported by federal legislation such as the Safe Drinking Water Act of 1974.

Watts manufactures many other speciality and commodity products for these markets including temperature control valves, ball valves, pipeline strainers, hydronic heating specialties, electric motorized valves, thermal expansion tanks, and other plumbing and heating products to provide customers with the broadest range of valves and assemblies. Watts' customer base includes over 6,000 plumbing and heating wholesalers who resell to mechanical contractors and installing plumbers. Watts' wholesalers have the advantage of buying a full product range from a single source.

[Photo of Kevin R. Sweeney, Executive Vice President, Water Products Division and Paul A. Lacourciere, Executive Vice President, Watts Regulator Company]

Domestic demand for plumbing and heating and water quality valves increased significantly during the year owing primarily to the resurgence of residential housing construction. Sales of water quality valves, namely backflow preventers, also increased for the first time in three years as their principal market, commercial construction, finally tempered its decline, and there was more stringent enforcement of the plumbing codes governing the installation of these products.

We also expanded sales to original equipment manufacturers (OEMs). Standard catalog products were augmented with valves custom designed to the exacting specifications of individual OEM requirements, thereby stimulating a sales increase for this division of nearly 20%.

The replacement demand for Watts' products has consistently offset some of the impact of interest-rate-sensitive construction cycles. Watts estimates that approximately 40% of sales derived from these markets are replacement driven. With market leadership for its principal valves and an installed base in excess of 100 million valves, Watts' prospects for increasing replacement business are excellent.

[Photo of Ernest E. Elliott, Vice President, Watts Products Division]

The flagship company serving these markets is the Watts Regulator Company, founded in 1874. Its seven domestic manufacturing plants produce over 65,000 valves per day, providing all of the benefits of high volume manufacturing including significant purchasing power.

[Photos of valves]

[Pie Graph Showing Percentages of Plumbing & Heating (34%) and Water Quality (12.5%) in the Plumbing & Heating and Water Quality Markets]

[Photo]
Franklin, NH facility

[Photo]
Spindale, NC facility

[Photo]
Canaan, NH facility

[Photo]
Chesnee, SC facility

The European counterpart of Watts Regulator is Interme, S.p.A., headquartered in Italy. Interme has an extensive range of valve products to satisfy the demands of diverse wholesaler requirements in the major European markets, including Germany, France, Italy, Holland, the Benelux countries, Spain, Portugal, and, more recently, Eastern European countries as well. Most of the Interme product range mirrors the valve products produced by Watts Regulator, except the Interme products are custom designed for the European market requirements since product styling and performance characteristics generally differ from those of the United States.

[Photo of Jean-Marc Sassier, Managing Director, Watts Industries Europe]

Watts SFR in France and Watts Ocean in Holland augment the Interme line with relief valves, pressure regulators, and backflow preventers. The products from all companies are combined into a single product offering to several thousand plumbing and heating wholesalers throughout the major European markets.

The enforcement of European plumbing codes for pressure relief valves, water pressure regulators, and backflow preventers offers many of the same advantages in Europe for Interme as in the domestic market for Watts Regulator.

The German sales arm of Interme, MTR GmbH, headquartered in Stuttgart, offers excellent future market opportunities in Eastern Europe. Initial sales during the past year have been realized in Poland, Hungary, Czech Republic, Slovakia, and other emerging markets. While Germany has been beleaguered with a serious recession throughout Fiscal 1994, construction and remodeling in former East Germany have provided some support to Watts' sales base. Overall sales for Fiscal 1994 for Watts Europe were flat, but there are some prospects for gradually improving market conditions in Western Europe and continued growth in Eastern Europe.

[Photo of Victor L. Pitt, President, Watts Industries (Canada) Inc.]

Watts Canada also enjoyed a year of increasing sales as the Canadian economy partially recovered from its long-term recession. Watts has a large market share in Canada which is supported by three manufacturing operations. During the year, Watts acquired the leading Canadian manufacturer of floor and roof drains, interceptors, backwater valves, and yard hydrants when it purchased LeHage Industries in July, 1993. The Ancon Division of LeHage presents an entirely new range of products to complement Watts' plumbing line of valves sold through wholesale distribution in Canada and the United States. As a further complement to the Ancon line of products, Watts Canada acquired Enpoco in November, 1993. The introduction of these product lines into the U.S. is one of Watts' priorities for growth during the new fiscal year.

[Photo] Watts Ocean B.V. Eerbeek, Netherlands	[Photo] Watts SFR SA Fressenneville, France	[Photo] Woodbridge, Ontario facility
[Photo] Interme, SpA Caldaro, Italy	[Photo] MTR GmbH Gemmrigheim, Germany	[Photo] Burlington, Ontario facility

[Pie Graph showing Fiscal 1994 Sales: International 29% and Domestic 71%]

Municipal Water

Watts' Municipal Water Group manufactures valves that are widely used to control the flow, pressure and level of water in systems for potable water supply, wastewater treatment, industrial process water and cooling water for power generation. The performance and quality of these valves enhance the reliability and efficiency of the systems in which they are installed.

Demand in the municipal water market comes from a combination of new construction, expansion, renovation and repair. The obsolescence of systems installed after the second World War, a shifting and expanding population, and federal regulations regarding clean water drive a continuing need for the Group's products. Federal and state funding limitations sometimes delay the implementation of some of these projects which are highly competitive.

[Photo of Edward G. Holtgraver, Group Vice President, Municipal Water]

Henry Pratt Company is a leading producer of butterfly and ball valves for municipal water supply. In power generation, Henry Pratt is one of a limited number of companies certified to supply valves to nuclear plants. With its large installed base, Henry Pratt is positioned to benefit from the growing business for maintenance and repair as domestic nuclear power plants age.

James Jones Company markets bronze fire hydrants, ball valves, curb stops and related bronze products for public and private potable water distribution systems. It has experienced growth from improved customer service, quality and delivery lead times, and a renewed emphasis on its core products and regional markets. Profits have improved due to increased volumes and aggressive cost management. James Jones is currently active in 11 states, with plans for controlled expansion within the United States and certain export markets as regionally focused products are developed. With the acquisition of EBCO, Watts provides a similar line of products for the United Kingdom.

The Watts Automatic Control Valve (ACV) is a pilot-operated, diaphragm-actuated, automatic hydraulic control valve used for water, fuels and other low to medium viscosity liquids. Henry Pratt will market Watts ACV products with its project specification and bid packages during Fiscal 1995. By providing a more comprehensive, integrated product package, the Municipal Water Group will meet more of its customers' needs and make it more attractive for independent distributors to promote the line. At the same time, the companies will maintain the independence necessary to provide the customer responsiveness that has been key to their competitive success.

[Photo of Robert T. McLaurin, Corporate Vice President, Asian Operations]

Serving the municipal water valve market in the People's Republic of China, Tianjin Tanggu Watts Valve Company, Ltd. is Watts' first effort to leverage domestic valve technology and manufacturing expertise in this international market.

[Photo]

Watts Automatic Control Valve, Inc.
Houston, TX

[Photo]

Henry Pratt Company
Aurora and Dixon, IL

[Pie Graph Showing Percentage of Municipal Water (16.1%) in the Municipal Water Market]

[Photo of valve]

[Photo]

Edward Barber & Company, Ltd.
Tottenham, U.K.

[Photo]

James Jones Company
El Monte, CA

Steam

The Steam Group companies provide products that control the efficient and safe use of steam - recognized as an economical method of transferring energy from one place to another.

Watts' four companies in this segment address a wide variety of markets, from HVAC, where steam is used in heating and cooling applications, to power generation, industrial process, and propulsion systems on U.S. Navy ships. Spence Engineering is a leader in the control of HVAC steam and is also active in industrial plants. Leslie Controls is both the premier supplier of control valves to the U.S. Navy and a supplier of products that are used in a variety of industrial and commercial steam applications. Nicholson Steam Trap is a leader in thermostatic trap technology, and the R. G. Laurence Company manufactures products primarily for the gas turbine industry.

[Photo of Charles S. Wolley, Group Vice President, Steam]

Overall, the long-term market outlook for steam generation is flat, but some new products and ongoing maintenance and repair opportunities should continue to support moderate growth. Steam unleashes a destructive force on system components, creating a demand for replacement parts that is predictable and steady. Proper handling of steam is also critical for safety. Therefore, the Steam Group's approach of selling through technical representatives concentrating on safety, reliability, and proper system design creates added value for its customer base.

Growth in 1994 was led by a rebound in sales to the U.S. Navy and the results of a strong new product development program. Leslie introduced the AeroFlow(TM) control valve which, coupled with its digital positioning system and optical feedback, delivers precision previously unattainable within the power industry. Spence Engineering strengthened its position in HVAC with a significant expansion of its ASME safety relief valve product line, and R.G. Laurence experienced strong growth in the gas turbine industry by redesigning its Soli-Con(TM) line of solenoid control valves to meet changing OEM requirements.

Cost management remains a focus. The recently completed relocation of Nicholson's manufacturing operations from Wilkes-Barre, Pennsylvania, to the Spence facility in Walden, New York, will reduce operating costs and improve manufacturing capabilities. Also, significant manufacturing cost improvements were realized through product engineering efforts.

[Photo of Frederic B. Horne, Corporate Vice President]

International Sourcing

The global economy presents opportunities to procure materials internationally. Watts is sourcing worldwide for competitive supplies of lower cost steel, iron and bronze castings, and other commodity materials, while maintaining sound partnerships with the most progressive and competitive U.S. suppliers. Through a careful blending process, our lower cost base will benefit and complement our capital investment program and position Watts for consistent, profitable growth.

[Photo]
Leslie Controls, Inc.
R.G. Laurence Company, Inc.
Tampa, FL

[Photo]
Spence Engineering Company, Inc.,
Nicholson Steam Trap, Inc.
Walden, NY

[Pie Graph Showing Percentage of Steam (12%) in the Steam Market]

[Photo of valve]

Statements of Consolidated Earnings

(Amounts in thousands, except per share information)

	Fiscal Year Ended June 30		
	1994	1993	1992
Net sales	\$ 518,541	\$ 465,796	\$ 423,808
Cost of goods sold	322,336	292,103	262,804
GROSS PROFIT	196,205	173,693	161,004
Selling, general and administrative expenses	121,597	111,550	96,458
Unusual charges		7,000	
OPERATING EARNINGS	74,608	55,143	64,546
Other (income) expense:			
Interest income	(2,986)	(4,397)	(4,103)
Interest expense	8,779	9,152	7,879
Other--net	1,480	1,248	831
	7,273	6,003	4,607
EARNINGS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	67,335	49,140	59,939
Provision for income taxes	26,325	18,734	23,314
EARNINGS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING	41,010	30,406	36,625
Cumulative effect on prior years (to June 30, 1992) of change in accounting for income taxes		3,132	
NET EARNINGS	\$ 41,010	\$ 27,274	\$ 36,625
Primary earnings per Common Share:			
Earnings before cumulative effect of change in accounting	\$ 1.38	\$ 1.01	\$ 1.29
Cumulative effect on prior years of change in accounting		(.10)	
NET EARNINGS	\$ 1.38	\$.91	\$ 1.29
Fully diluted earnings per Common Share:			
Earnings before cumulative effect of change in accounting	\$ 1.38	\$ 1.01	\$ 1.27
Cumulative effect on prior years of change in accounting		(.10)	
NET EARNINGS	\$ 1.38	\$.91	\$ 1.27
Dividends paid per Common Share	\$.20	\$.16	\$.13
Weighted average number of Common Shares:			
Primary	29,674	30,090	28,326
Fully diluted	29,717	30,098	30,080

The accompanying notes are an integral part of these consolidated financial statements.

Report of Independent Auditors

Board of Directors

Watts Industries, Inc.

We have audited the accompanying consolidated balance sheets of Watts Industries, Inc. and subsidiaries as of June 30, 1994 and 1993, and the related statements of consolidated earnings, consolidated stockholders' equity, and consolidated cash flows for each of the three years in the period ended June 30, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the 1994 and 1993 financial statements of Watts Industries Europe B.V., a wholly-owned subsidiary, which statements reflect total assets of \$107,729,000 and \$100,219,000 as of June 30, 1994 and 1993, respectively, and total revenues of \$79,709,000 and \$57,645,000, for the years then ended. Those 1994 and 1993 statements were audited by other auditors, Deloitte & Touche, whose report has been furnished to us, and our opinion, insofar as it relates to data included for Watts Industries Europe B.V., is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Watts Industries, Inc. and subsidiaries at June 30, 1994 and 1993, and the consolidated results of their operations and their cash flows for each of the three years in the period ended June 30, 1994, in conformity with generally accepted

accounting principles.

As discussed in Note 4 to the consolidated financial statements, in 1993, the Company changed its method of accounting for income taxes.

Boston, Massachusetts [Signature of Ernst & Young] August 5, 1994

Consolidated Balance Sheets
(Amounts in thousands, except share information)

ASSETS	June 30	
	1994	1993
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,231	\$ 16,937
Short-term investments	58,769	66,198
Trade accounts receivable, less allowance of \$4,488 in 1994 and \$3,565 in 1993 for doubtful accounts	79,342	68,099
Inventories:		
Finished goods	60,104	48,910
Work in process	39,671	33,939
Raw materials	53,305	49,064
	-----	-----
	153,080	131,913
Prepaid expenses and other current assets	8,484	9,494
Deferred income taxes	14,973	8,551
	-----	-----
Total Current Assets	320,879	301,192
OTHER ASSETS		
Goodwill, net of accumulated amortization of \$7,232 in 1994 and \$4,743 in 1993	89,500	87,017
Other	12,222	13,205
	-----	-----
	101,722	100,222
PROPERTY, PLANT AND EQUIPMENT		
Land	11,263	11,247
Buildings and improvements	62,279	59,951
Machinery and equipment	149,652	142,384
Construction in progress	7,181	4,665
	-----	-----
	230,375	218,247
Less allowance for depreciation	94,126	83,986
	-----	-----
	136,249	134,261
	-----	-----
	\$ 558,850	\$ 535,675
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 24,672	\$ 21,180
Accrued expenses and other liabilities	36,840	40,441
Accrued compensation	8,355	10,059
Income taxes payable	3,340	4,494
Current portion of long-term debt	1,141	2,366
	-----	-----
Total Current Liabilities	74,348	78,540
LONG-TERM DEBT, net of current portion	97,479	101,468
DEFERRED INCOME TAXES	16,357	13,435
OTHER LIABILITIES	9,115	7,112
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.10 par value; 5,000,000 shares authorized, no shares issued or outstanding		
Class A Common Stock, \$.10 par value; authorized 40,000,000 shares; issued 18,009,822 shares in 1994 and 9,226,770 in 1993	1,801	923
Class B Common Stock, \$.10 par value; authorized 13,000,000 shares; issued 11,472,470 in 1994 and 5,744,635 in 1993	1,147	574
Additional paid-in capital	92,996	101,491
Retained earnings	268,706	235,052
Foreign currency translation adjustment	(3,099)	(2,920)
	-----	-----
	361,551	335,120
	-----	-----
	\$ 558,850	\$ 535,675
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

Statements of Consolidated Stockholders' Equity
(Amounts in thousands, except share information)

	Class A Common Stock		Class B Common Stock		Additional Paid-In Capital	Retained Earnings	Foreign Currency Translation Adjustment	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance at July 1, 1991	7,826,522	\$ 783	5,778,575	\$ 578	\$ 55,308	\$178,759	\$ 287	\$235,715
Net earnings						36,625		36,625
Shares of Class A Common Stock issued upon conversion of debt	1,245,944	125			42,951			43,076
Shares of Class B Common Stock converted to Class A Common Stock	32,940	3	(32,940)	(3)				
Shares of Class A Common Stock exchanged upon the exercise of stock options and retired	(5,129)	(1)			(266)			(267)
Shares of Class A Common Stock issued upon the exercise of stock options	70,553	7			2,041			2,048
Common Stock cash dividends						(3,865)		(3,865)
Change in foreign currency translation adjustment							1,561	1,561
Balance at June 30, 1992	9,170,830	917	5,745,635	575	100,034	211,519	1,848	314,893
Net earnings						27,274		27,274
Shares of Class B Common Stock converted to Class A Common Stock	1,000	1	(1,000)	(1)				
Shares of Class A Common Stock exchanged upon the exercise of stock options and retired	(4,500)	(1)			(218)			(219)
Shares of Class A Common Stock issued upon the exercise of stock options	59,440	6			1,675			1,681
Common Stock cash dividends						(3,741)		(3,741)
Change in foreign currency translation adjustment							(4,768)	(4,768)
Balance at June 30, 1993	9,226,770	923	5,744,635	574	101,491	235,052	(2,920)	335,120
Net earnings						41,010		41,010
Shares of Class B Common Stock converted to Class A Common Stock	16,500	1	(16,500)	(1)				
Shares of Class A Common Stock exchanged upon the exercise of stock options and retired	(25,498)	(3)			(1,172)			(1,175)
Shares of Class A Common Stock issued upon the exercise of stock options	154,761	16			4,707			4,723
Purchase and retirement of treasury stock	(342,700)	(34)			(12,030)			(12,064)
Common Stock cash dividends						(5,884)		(5,884)
Effect of two-for-one stock split	8,979,989	898	5,744,335	574		(1,472)		
Change in foreign currency translation adjustment							(179)	(179)
Balance at June 30, 1994	18,009,822	\$1,801	11,472,470	\$1,147	\$ 92,996	\$268,706	(\$3,099)	\$361,551

The accompanying notes are an integral part of these consolidated financial statements.

Statements of Consolidated Cash Flows
(Amounts in thousands)

	Fiscal Year Ended June 30		
	1994	1993	1992
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings	\$41,010	\$27,274	\$36,625
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization.....	22,393	20,560	17,630
Deferred income taxes.....	(151)	(1,273)	(4,274)
Loss on disposal of equipment.....	15	168	67
Cumulative effect of change in accounting for income taxes.....		3,132	
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Accounts receivable.....	(9,849)	8,755	(5,687)
Inventories.....	(18,592)	(3,540)	(4,228)
Prepaid expenses and other current assets.....	1,425	1,334	1,218
Accounts payable, accrued expenses and other liabilities.....	158	(9,447)	(2,494)
Net cash provided by operating activities.....	36,409	46,963	38,857
INVESTING ACTIVITIES			
Additions to property, plant and equipment.....	(19,928)	(25,798)	(18,054)
Proceeds from sale of equipment.....	395	635	505
Increase in goodwill and other assets.....	(1,196)	(1,378)	(1,081)
Business acquisitions, net of cash acquired:			
Henry Pratt.....			(57,154)
Intermes	(6,094)	(22,184)	
Other acquisitions.....	(4,783)	(13,494)	(2,393)
Repayment of debt of acquired businesses.....	(1,935)	(6,872)	
Net changes in short-term investments.....	7,429	32,690	(27,644)
Net cash used in investing activities.....	(26,112)	(36,401)	(105,821)
FINANCING ACTIVITIES			
Purchase and retirement of treasury stock.....	(12,064)		
Payments of long-term debt.....	(6,032)	(963)	(879)
Proceeds from the sale of Notes.....			75,000
Proceeds from long-term borrowings.....	716	3,048	
Proceeds from exercise of stock options.....	2,418	1,265	1,286
Cash dividends.....	(5,884)	(4,785)	(3,637)
Net cash provided by (used in) financing activities.....	(20,846)	(1,435)	71,770
Effect of exchange rates on cash and cash equivalents.....	(157)	(2,179)	378
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(10,706)	6,948	5,184
Cash and cash equivalents at beginning of year.....	16,937	9,989	4,805
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 6,231	\$16,937	\$ 9,989
	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

1. ACCOUNTING POLICIES

Principles of Consolidation: The consolidated financial statements include the accounts of Watts Industries, Inc. and its majority-owned subsidiaries (the Company). Upon consolidation, all significant intercompany accounts and transactions are eliminated.

Foreign Currency Translation: Balance sheet accounts of foreign subsidiaries are translated into United States dollars at fiscal year-end exchange rates. Operating accounts are translated at average exchange rates for each year. Net translation gains or losses are adjusted directly to a separate component of stockholders' equity.

Cash Equivalents and Short-Term Investments: Cash equivalents consist of investments having maturities of three months or less at the date of purchase. Short-term investments consist of corporate and municipal bonds, and mutual funds whose portfolios consist principally of United States Government securities. Short-term investments are valued at cost, which approximates market.

In May 1993, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." This Statement will be effective beginning in fiscal year 1995, and expands the use of fair value accounting and reporting for certain investments in debt and equity securities, but retains the use of the amortized cost method for those investments in debt securities for which the holder has the positive intent and ability to hold to maturity. The Company believes that adoption of this Standard will not have a significant effect on its results of operations or financial condition.

Concentrations of Credit Risk: Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash equivalents, short-term investments and trade receivables. The Company places its cash equivalents and short-term investments with high credit, quality financial institutions and, by policy, limits the amount of credit exposure to any one financial institution. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers included in the Company's customer base and their dispersion across many different industries and geographic areas. As of June 30, 1994, the Company had no significant concentrations of credit risk.

Inventories: Inventories are stated at cost (principally first-in, first-out method) not in excess of net realizable value. Inventories amounting to \$14,050,000 at June 30, 1994 and \$14,019,000 at June 30, 1993 are valued using the last-in, first-out method (LIFO), which approximates current replacement cost.

Property, Plant and Equipment: Property, plant and equipment are recorded at acquired cost. Depreciation is provided on the straight-line basis over the estimated useful lives of the assets.

Income Taxes: Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities for which income tax benefits and obligations will be realized in future years.

Goodwill: Goodwill represents the excess of cost over the fair value of net assets of businesses acquired. This balance is amortized over 40 years using the straight-line method. To the extent the Company makes payments under contingent earn-out arrangements related to businesses previously acquired, those amounts are recorded as additional goodwill.

The carrying value of goodwill is reviewed if the facts and circumstances suggest that it may be impaired. If this review indicates that goodwill will not be recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying value of the goodwill would be reduced to its fair value.

Earnings Per Common Share: Earnings per common share is based upon the weighted average number of Class A and B Common Shares outstanding during each period and the dilutive effect of Class A Common Stock options. Shares of Class A Common Stock issuable upon conversion of outstanding Convertible Subordinated Debentures were included in the calculation of fully diluted earnings per share, up to the date of conversion on March 15, 1992. Had the conversion of these Debentures taken place at the beginning of 1992, primary earnings per share in 1992 would have been \$1.27.

Basis of Presentation: Certain amounts in 1993 and 1992 have been reclassified to permit comparison with the 1994 presentation.

2. BUSINESS ACQUISITIONS

On November 6, 1992, the Company acquired 100% of the outstanding common stock of Interme, a plumbing and heating valve manufacturer, for \$28.3 million.

2. BUSINESS ACQUISITIONS(cont'd.) On September 30, 1991, the Company acquired 100% of the outstanding common stock of Henry Pratt Company for cash of \$57.2 million. In addition, upon Pratt's achievement of targeted operating income levels, the Company will be required to make annual contingent payments through 1997 of \$1.3 million plus 25% of amounts in excess of targeted operating income levels.

In addition, the Company acquired other valve manufacturers for cash of \$4.8 million, \$13.5 million and \$2.4 million in fiscal 1994, 1993 and 1992, respectively.

These acquisitions were accounted for under the purchase method. The results of operations of the acquired businesses are included in the consolidated financial statements from the dates of acquisition.

The following unaudited pro forma consolidated results of operations for the years ended June 30, 1993 and 1992 are presented as if the acquisitions made in 1993 and 1992 had been made at the beginning of the year in which the acquisitions occurred, and at the beginning of the year immediately preceding the year of the acquisitions. The effects of acquisitions made in 1994 are not material and, accordingly, have been excluded from the pro forma presentation.

	1993	1992
	-----	-----
Net sales	\$483,081,000	\$485,061,000
Net earnings	26,807,000	37,184,000
Primary net earnings per Common Share89	1.32

The pro forma results of operations give effect to interest costs of funds

used to finance the acquisitions and include adjustments for depreciation and amortization resulting from the allocation of the costs of the acquisitions. The unaudited pro forma information is not necessarily indicative of either the results of operations that would have occurred had the purchase been made during the periods presented, or the future results of the combined operations.

3. UNUSUAL CHARGES

In December 1992, the Company recorded unusual charges of \$7 million. These unusual charges were related to environmental matters and costs associated with the downsizing and restructuring of certain previously acquired companies. The charges include approximately \$2 million relating to the resolution of environmental litigation arising under CERCLA (Comprehensive Environmental Response, Compensation and Liability Act) involving a manufacturing facility sold in 1978, and clean-up costs principally relating to certain of the Company's foundry operations; a \$3 million accrual for estimated future environmental clean-up costs; and \$2 million relating to downsizing of certain previously acquired operations which have been negatively impacted by reduced military spending and to the consolidation and relocation of the operations of a previously acquired business.

4. INCOME TAXES

The Company adopted SFAS Statement No. 109 ("Accounting for Income Taxes") as of the beginning of fiscal year 1993. The cumulative effect on prior years of this change in accounting principle decreased fiscal 1993 net earnings by \$3.1 million or \$.10 per share, and is reported separately in the statement of consolidated earnings for the year ended June 30, 1993. The effect of adopting Statement 109, including its application to prior business combinations, did not have a material impact on 1993 pre-tax earnings.

At June 30, 1994, the Company has foreign net operating loss carryforwards of \$6.2 million for income tax purposes that expire in years 1995 through 2004. In addition, foreign net operating losses of \$3.4 million can be carried forward indefinitely. These carryforwards resulted primarily from the Company's 1993 business acquisitions.

The significant components of the Company's deferred tax liabilities and assets are as follows:

	June 30	
	1994	1993
	-----	-----
Deferred tax liabilities:		
Depreciation	\$ 12,402,000	\$ 12,172,000
Other	3,955,000	1,263,000
	-----	-----
Total deferred tax liabilities	16,357,000	13,435,000
Deferred tax assets:		
Accrued expenses	8,202,000	6,367,000
Other	7,613,000	3,998,000
	-----	-----
Total deferred tax assets	15,815,000	10,365,000
Valuation allowance for deferred tax assets .	(842,000)	(1,814,000)
	-----	-----
Net deferred tax assets	14,973,000	8,551,000
	-----	-----
Net deferred tax liabilities	\$ 1,384,000	\$ 4,884,000

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Notes to Consolidated Financial Statements (cont'd.)

4. INCOME TAXES (cont'd.)

The provision for income taxes is based on the following pre-tax earnings:

	1994	1993	1992
Domestic	\$57,375,000	\$42,260,000	\$52,238,000
Foreign	9,960,000	6,880,000	7,701,000
	\$67,335,000	\$49,140,000	\$59,939,000
	=====	=====	=====

The provision for income taxes as reflected in the statements of consolidated earnings consists of the following:

	Liability Method		Deferred Method
	1994	1993	1992
Currently payable:			
Federal	\$ 20,035,000	\$ 14,583,000	\$ 20,987,000
Foreign	2,606,000	2,850,000	2,995,000
State	3,835,000	2,574,000	3,606,000
	26,476,000	20,007,000	27,588,000
Deferred, principally federal ..	(151,000)	(1,273,000)	(4,274,000)
	\$ 26,325,000	\$ 18,734,000	\$ 23,314,000
	=====	=====	=====

Total income taxes reported are different than would have been computed by applying the federal statutory tax rate to earnings before income taxes. The reasons for this difference are as follows:

	Liability Method		Deferred Method
	1994	1993	1992
Computed expected federal income tax expense	\$23,567,000	\$16,708,000	\$20,379,000
State income taxes, net of federal tax benefit	2,350,000	1,548,000	2,243,000
Other	408,000	478,000	692,000
	\$26,325,000	\$18,734,000	\$23,314,000
	=====	=====	=====

Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$36 million, \$29 million and \$25 million at June 30, 1994, 1993 and 1992 respectively. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been provided thereon. Upon distribution of those earnings in the form of dividends or otherwise, the Company would be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries.

Determination of the amount of U.S. income tax liability that would be incurred is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of any U.S. income tax liability. Withholding taxes of approximately \$2.8 million would be payable upon remittance of all previously unremitted earnings at June 30, 1994.

The Company made income tax payments of \$31.4 million, \$20.5 million and \$27.6 million in 1994, 1993 and 1992, respectively.

5. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	June 30	
	1994	1993
Commissions and sales incentives payable	\$ 6,860,000	\$ 5,915,000
Accrued insurance costs	6,330,000	4,481,000
Accrued medical and pension benefits	3,072,000	2,820,000
Accrued payments in connection with		

business acquisitions	2,982,000	10,612,000
Other	17,596,000	16,613,000
	-----	-----
	\$36,840,000	\$40,441,000
	=====	=====

6. FINANCING ARRANGEMENTS

Long-term debt consists of the following:	June 30	
	1994	1993
8-3/8% Notes, Due 2003	\$ 75,000,000	\$ 75,000,000
Industrial Revenue Bonds, maturing periodically from 2006 through 2019. Interest accrues at a variable rate based on weekly tax-exempt interest rates (2.75% at June 30, 1994)	17,268,000	17,653,000
Other	6,352,000	11,181,000
	98,620,000	103,834,000
Less current portion	1,141,000	2,366,000
	\$ 97,479,000	\$101,468,000
	=====	=====

On November 26, 1991, the Company issued \$75,000,000 principal amount of 8-3/8% Notes Due 2003. Interest is payable semiannually on December 1 and June 1 each year. The notes are not subject to optional redemption prior to maturity and there are no sinking fund payments required. The notes are considered general unsecured obligations of the Company. The notes include covenants, which, among other things, restrict borrowings secured by certain assets and certain sale and leaseback transactions by the Company or any "restricted subsidiary" (as defined), subject to certain exceptions, including secured borrowings not exceeding 10% of the Company's consolidated stockholders' equity, unless the notes are secured ratably with such borrowings.

Principal payments during each of the next five fiscal years are due as follows: 1995-\$1,141,000; 1996-\$883,000; 1997-\$682,000; 1998-\$552,000; and 1999-\$5,457,000. Interest paid during fiscal 1994 and 1993 approximates interest expense.

7. COMMON STOCK

On January 18, 1994, the Board of Directors declared a two-for-one stock split, effective March 15, 1994, in the form of a dividend of one additional share of the Company's Common Stock (Class A and B) for each share owned by stockholders of record at the close of business on March 1, 1994. Par value remained at \$.10 per share. Earnings per share, cash dividends per share, weighted average common shares outstanding and the stock option plan share information have been restated for all periods presented to reflect the stock split.

During 1994, the Company repurchased 342,700 shares of Class A Common Stock prior to the stock split for \$12.1 million.

The Class A Common Stock and Class B Common Stock have equal dividend and liquidation rights. Each share of the Company's Class A Common Stock is entitled to one vote on all matters submitted to stockholders and each share of Class B Common Stock is entitled to ten votes on all such matters. Shares of Class B Common Stock are convertible into shares of Class A Common Stock, on a one-to-one basis, at the option of the holder.

The Company has reserved a total of 14,663,116 shares of Class A Common Stock for issuance under its Incentive Stock Option Plan, its Nonqualified Stock Option Plan and conversion of shares of Class B Common Stock into Class A Common Stock.

8. QUALIFIED AND NONQUALIFIED STOCK OPTION PLANS

The Company has a qualified incentive stock option plan whereunder options to purchase up to 1,980,000 shares of Class A Common Stock may be granted to key employees. Options are granted at an exercise price equal to 100% of the fair market value per share on the date of grant. At June 30, 1994, the Company has reserved 1,495,800 shares of Class A Common Stock for issuance under the plan.

The Company also has a nonqualified stock option plan whereunder options to purchase up to 2,000,000 shares of Class A Common Stock may be granted to key employees. Options are granted at an exercise price determined by the Board of Directors, but not less than 50% of the fair market value per share on the date of grant. At June 30, 1994, the Company has reserved 1,694,846 shares of Class A Common Stock for issuance under the plan.

Notes to Consolidated Financial Statements (cont'd.)

8. QUALIFIED AND NONQUALIFIED STOCK OPTION PLANS (cont'd.)

A summary of activity in the plans is as follows:

	Number of Shares		Exercise Price
	Qualified	Nonqualified	
Outstanding options at			
July 1, 1991	467,510	312,586	\$ 8.09 to \$17.50
Granted	206,000	136,000	16.88 to 24.75
Exercised	(71,384)	(69,722)	8.09 to 17.50
Cancelled	(14,000)		10.50 to 17.50
Outstanding options at			
June 30, 1992	588,126	378,864	8.09 to 24.75
Granted	210,000	136,000	16.60 to 24.34
Exercised	(86,880)	(32,000)	8.09 to 22.50
Cancelled	(34,000)		14.25 to 22.50
Outstanding options at			
June 30, 1993	677,246	482,864	8.75 to 24.75
Granted	237,500	146,000	15.73 to 22.50
Exercised	(108,446)	(167,432)	8.75 to 22.50
Cancelled	(54,000)	(158,000)	8.75 to 22.50
Outstanding options at			
June 30, 1994	752,300	303,432	\$ 8.75 to \$24.75

Outstanding options generally vest at the rate of 20% per year. At June 30, 1994, 192,880 qualified options were exercisable and 45,432 nonqualified options were exercisable.

9. RETIREMENT BENEFITS

The Company has defined benefit pension plans covering substantially all of its domestic nonunion employees. Plans covering salaried employees provide pension benefits that are based on years of service and the employee's

compensation during the last five years of employment. Plans covering hourly employees generally provide benefits of stated amounts for each year of service. The Company's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributable to service to date, but also for those expected to be earned in the future.

The following table sets forth the components of pension expense, the funded status and amounts recognized in the consolidated balance sheets for the Company's domestic defined benefit pension plans. Defined benefit plans for the Company's foreign subsidiaries are not material. The Company computes its pension obligations and expense using March 31 as its measurement date.

	1994	March 31	1993
Actuarial present value of benefit obligations:			
Accumulated benefit obligation, including vested benefits of \$18,361,000 at March 31, 1994 and \$15,951,000 at March 31, 1993	\$ 19,046,000		\$ 16,647,000
Projected benefit obligation for services rendered to date	\$ 24,288,000		\$ 20,714,000
Plan assets at fair value, primarily fixed income securities	24,432,000		22,443,000
Plan Assets in Excess of Projected Benefit Obligation	144,000		1,729,000
Unrecognized net (gain) loss from past experience different from that assumed and effect of changes in assumptions	410,000		(467,000)
Unrecognized prior service cost	1,089,000		1,178,000
Unrecognized net transition asset	(3,181,000)		(3,499,000)
Accrued Pension Liability	(\$ 1,538,000)		(\$ 1,059,000)

9. RETIREMENT BENEFITS (cont'd)

Net pension cost included the following components:

	Year Ended March 31		
	1994	1993	1992
Service cost--benefits earned during the year	\$ 1,753,000	\$ 1,678,000	\$ 1,486,000
Interest cost on projected benefit obligation	1,775,000	1,556,000	1,359,000
Actual return on plan assets	(1,608,000)	(1,787,000)	(1,930,000)
Net amortization and deferral	(418,000)	(105,000)	255,000
	-----	-----	-----
	\$ 1,502,000	\$ 1,342,000	\$ 1,170,000
	=====	=====	=====

The weighted average discount rate and rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were approximately 8% and 6%, respectively, at March 31, 1994 and 1993. The expected long-term rate of return on plan assets in 1994, 1993 and 1992 was approximately 8%.

In November 1992, the FASB issued SFAS No. 112 "Employers' Accounting for Postemployment Benefits." The Statement will be effective for fiscal year 1995 and requires in certain cases that estimated costs of postemployment benefits be recognized over the service lives of employees. The Company believes that adoption of the Standard will not have a material effect on its results of operations or financial condition.

10. COMMITMENTS AND CONTINGENCIES

The Company is engaged in various claims and litigation arising from its operations. In the opinion of management, uninsured losses, if any, resulting from these matters will not have a material adverse impact on the consolidated financial position or future results of operations of the Company.

The Company has been named a potentially responsible party with respect to identified contaminated sites. The level of contamination varies significantly from site to site and remediation efforts that are underway are in various stages. In certain cases, remediation has not begun. The Company has evaluated its potential exposure based on all currently available information and has recorded an estimate of its liability for environmental matters.

With respect to one contaminated site included on the Environmental Protection Agency's National Priorities List, the Company expects to be named a potentially responsible party. The process of determining the causes and extent of contamination, the cost of remediation and the method to allocate that cost among those ultimately determined to be responsible is in a very early stage. Accordingly, the ultimate outcome of this matter cannot be determined at this time.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following method and assumptions were used by the Company to estimate the fair value of its financial statements:

Cash and Cash Equivalents and Short-Term Investments

The carrying amounts reported in the balance sheet approximate fair value.

Long-Term Debt

The fair value of the Company's 8-3/8% Notes, Due 2003 is based on quoted market prices. The fair value of other long-term debt is estimated using discounted cash flow analyses, based on the Company's incremental borrowing rates for similar types of borrowing arrangements.

The carrying amount and the estimated fair market value of the Company's long term debt are as follows:

	June 30	
	1994	1993
Carrying amount	\$ 98,620,000	\$103,834,000
Estimated fair value	99,745,000	113,115,000

Notes to Consolidated Financial Statements (cont'd.)

12. FINANCIAL INFORMATION BY GEOGRAPHIC AREA

The Company designs, manufactures and sells an extensive line of valves for plumbing and heating, municipal water, water quality, industrial, steam, and oil and gas markets. Sales, operating profit and identifiable assets by major geographic area are summarized as follows. Transfer prices to foreign subsidiaries are intended to produce profit margins commensurate with sales and marketing efforts.

	(Amounts in thousands)				
	Domestic	Canada	Europe	Eliminations	Consolidated
1994					
Sales	\$410,100	\$ 28,732	\$ 79,709		\$518,541
Transfer between areas	14,991	2,820		\$ 17,811	
	\$425,091	\$ 31,552	\$ 79,709	\$ 17,811	\$518,541
	=====	=====	=====	=====	=====
Operating Earnings of Geographic Areas	\$ 68,120	\$ 2,304	\$ 10,276	\$ 94	\$ 80,606
	=====	=====	=====	=====	
General corporate expenses					5,998

Operating Earnings					\$ 74,608
					=====
Identifiable Assets	\$428,293	\$ 23,469	\$108,072	\$ 984	\$558,850
	=====	=====	=====	=====	=====
1993					
Sales	\$388,804	\$ 19,347	\$ 57,645		\$465,796
Transfer between areas	13,166	2,196		\$ 15,362	
	\$401,970	\$ 21,543	\$ 57,645	\$ 15,362	\$465,796
	=====	=====	=====	=====	=====
Operating Earnings of Geographic Areas	\$ 52,105	\$ 2,306	\$ 6,294	\$ 264	\$ 60,441
	=====	=====	=====	=====	
General corporate expenses					5,298

Operating Earnings					\$ 55,143
					=====
Identifiable Assets	\$415,759	\$ 20,343	\$100,463	\$ 890	\$535,675
	=====	=====	=====	=====	=====
1992					
Sales	\$376,782	\$ 19,836	\$ 27,190		\$423,808
Transfer between areas	13,623	1,694		\$ 15,317	
	\$390,405	\$ 21,530	\$ 27,190	\$ 15,317	\$423,808
	=====	=====	=====	=====	=====
Operating Earnings of Geographic Areas	\$ 60,621	\$ 3,420	\$ 4,538	\$ 94	\$ 68,485
	=====	=====	=====	=====	
General corporate expenses					3,939

Operating Earnings					\$ 64,546
					=====
Identifiable Assets	\$433,737	\$ 19,624	\$ 22,885	\$ 626	\$475,620
	=====	=====	=====	=====	=====

Included in domestic sales are export sales of \$45.4 million in 1994, \$31.6 million in 1993 and \$28.1 million in 1992.

13. SUBSEQUENT EVENTS

During July, the Company purchased a domestic manufacturer of metal and plastic water supply products with annual revenues of approximately \$56 million for \$35.2 million in cash. The Company also entered into a joint venture for \$8.5 million with a valve manufacturer located in the People's Republic of China in exchange for a 60% interest in the Chinese joint venture.

During August, the Company entered into a five year agreement with a banking syndicate which permits the Company to borrow up to \$125 million under an unsecured line of credit facility. Borrowings under the agreement accrue

interest at LIBOR, plus 25 basis points.

14. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)
(Amounts in thousands, except share information)

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
1994				

Net sales.....	\$130,581	\$127,734	\$133,532	\$126,694
Gross profit.....	49,272	49,342	50,691	46,900
Net earnings.....	10,537	10,548	11,040	8,885
Primary and fully diluted net earnings per Common Share.....	.35	.36	.37	.30
Dividends paid per share.....	.045	.045	.055	.055
1993				

Net sales.....	\$109,616	\$113,909	\$119,764	\$122,507
Gross profit.....	41,186	43,899	44,755	43,853
Earnings before cumulative effect of change in accounting.....	9,932	4,996	8,567	6,911
Net earnings.....	6,800	4,996	8,567	6,911
Primary and fully diluted earnings per Common Share:				
Earnings before cumulative effect of change in accounting.....	.33	.17	.28	.23
Net earnings.....	.23	.17	.28	.23
Dividends paid per share.....	.035	.035	.045	.045
1992				

Net sales.....	\$94,098	\$108,078	\$110,238	\$111,394
Gross profit.....	35,909	41,446	42,819	40,830
Net earnings.....	9,101	8,932	10,117	8,475
Earnings per Common Share:				
Primary.....	.33	.32	.36	.28
Fully diluted.....	.32	.32	.35	.28
Dividends paid per share.....	.030	.030	.035	.035

Primary and fully diluted earnings per share and dividends paid per share have been restated for all periods presented above to reflect the stock split effected in March 1994.

Management's Discussion and Analysis of
Financial Condition and Results of Operations

Results of Operations

Fiscal Year Ended June 30, 1994 Compared to Fiscal Year Ended June 30, 1993

Net sales increased \$52,745,000 (11.3%) to \$518,541,000. This increase was attributable to the inclusion of the net sales of acquired companies and increased unit shipments of certain product lines. The net sales of Intermes, S.p.A. ("Intermes") acquired in November 1992, Edward Barber Company ("EBCO") acquired in May 1993, Ancon Products, Inc. ("Ancon") acquired in July 1993, and Enpoco Canada, Ltd. ("Enpoco") acquired in November 1993, all foreign based companies, represented approximately 56% of the increase. The Company had increased unit shipments of plumbing and heating valves, water quality valves, and oil and gas valves. These increases were partially offset by decreased unit shipments of municipal water valves and aerospace/military valves. International sales increased from 23% to 29% of total sales, principally as a result of the acquisitions discussed above. Export sales increased almost \$14,000,000 (44%) to \$45,400,000, primarily due to increased shipments of oil and gas valves. The Company intends to maintain its strategy of seeking acquisition opportunities as well as developing its international sales to achieve sales growth.

Gross profit increased \$22,512,000 (13.0%) to \$196,205,000 and increased as a percentage of net sales from 37.3% to 37.8%. This increased percentage was primarily attributable to improved manufacturing performance and increased volume, particularly in the plumbing and heating and water quality segments, as well as decreased costs of bronze ingot. During fiscal 1995, the Company anticipates the cost of ingot to rise which may unfavorably impact its margin depending on its ability to increase selling prices.

Selling, general and administrative expenses increased \$3,047,000 (2.6%) to \$121,597,000. The Company recorded \$7,000,000 of unusual charges in the year ended June 30, 1993 for environmental matters and costs associated with the downsizing and restructuring of certain acquired companies. Excluding the effect of this charge, selling, general and administrative expenses would have increased \$10,047,000 (9.0%) in the period ended June 30, 1994. This increase is primarily attributable to the inclusion of the expenses of acquired companies and increased commissions associated with the higher sales volume. These increases were partially offset by decreased spending at several subsidiaries as a result of downsizing programs implemented during the last fiscal year.

The Company from time to time is involved with environmental proceedings and incurs costs on an ongoing basis related to environmental matters. The Company has been or expects to be named a potentially responsible party with respect to currently identified contaminated sites, which are in various stages of the remediation process. The Company has evaluated its potential exposure based on all currently available information and has recorded its estimate of its liability for environmental matters. The ultimate outcome of these environmental matters cannot be determined. The Company currently anticipates that it will not incur significant expenditures in fiscal 1995 in connection with any of these environmentally contaminated sites. Please see Note 10 to the accompanying consolidated financial statements.

Interest income decreased \$1,411,000 (32.1%) to \$2,986,000 due to decreased levels of cash and short-term investments.

Net earnings increased \$13,736,000 (50.4%) to \$41,010,000. If the Company had not incurred the \$7,000,000 of unusual charges and the cumulative effect of the change in accounting method in fiscal 1993, net earnings would have increased 18.5%. The Company's return on investment for the fiscal year ended June 30, 1994 was 11.8%. The Company's return on investment for the fiscal year ended June 30, 1993 before the change in accounting method and the \$7,000,000 of unusual charges was 10.4%. This compares to 13.7% for fiscal year 1992, 15.8% for fiscal year 1991, and 17.6% for fiscal year 1990. The primary reasons for these declining percentages is the increase in stockholders' equity associated with the conversion of the Company's \$44,000,000 Convertible Debentures on or prior to March 15, 1992 and the sale on February 28, 1991 of 920,000 shares of Class A Common Stock in a public offering at a price to the public of \$40.50 per share. Stockholders' equity increased \$78,732,000 as a result of these transactions. These transactions have also resulted in a relatively high level of cash and short-term investments which also had the effect of decreasing the

return on investment ratio due to the lower return earned on these assets as compared to the return earned on operating assets.

The change in foreign exchange rates since June 30, 1993 did not have a material impact on the results of operations or the financial condition of the Company.

The weighted average number of common shares, after giving effect to the two-for-one stock split described in Note 7 to the accompanying consolidated financial statements, outstanding on June 30, 1994 decreased to 29,674,464 from 30,089,898 for primary earnings per share. This decrease is the result of the repurchase by the Company, prior to the stock split, of 342,700 shares of Class A Common Stock. Primary and fully diluted earnings per share were \$1.38 for the period ended June 30, 1994 compared to \$1.16 before unusual charges and the cumulative effect of the change in accounting method for the period June 30, 1993.

Results of Operations

Fiscal Year Ended June 30, 1993 Compared to Fiscal Year Ended June 30, 1992

Net sales increased \$41,988,000 (9.9%) to \$465,796,000. This increase was attributable exclusively to the inclusion of the net sales of acquired companies, including the net sales of Interme, S.p.A. ("Interme") acquired in November 1992, Henry Pratt Company ("Pratt") acquired in September 1991, Waletzko Armaturen GmbH ("Waletzko") acquired in July 1992, Edward Barber Company (EBCO) acquired in May 1993, and Rockford Valve Company ("Rockford") acquired in August 1992. Without the net sales of these acquired companies, net sales for fiscal year 1993 would have been equal to the net sales for fiscal year 1992. The Company had increased unit shipments of plumbing and heating valves, water flow control valves, and oil and gas valves. However, these increases were offset by decreased unit shipments of steam control valves to the Navy, and aerospace/military valves. The Company believes the reduction in Navy/military sales to be a long-term condition. The Company also believes that as long as the general economic environment remains at its current level, it will be difficult to achieve meaningful internal sales growth. The Company intends to maintain its strategy of seeking acquisition opportunities as well as developing its international sales to achieve growth.

Gross profit increased \$12,689,000 (7.9%) to \$173,693,000 but decreased as a percentage of net sales from 38.0% to 37.3%. This decreased percentage was primarily attributable to decreased unit pricing in certain product lines due to competitive pricing pressure, decreased absorption of fixed manufacturing expenses resulting from lower production levels associated with decreased sales of steam control valves to the Navy, and a less favorable product mix.

Selling, general and administrative expenses increased \$22,092,000 (22.9%) to \$118,550,000. This increase includes \$7,000,000 of unusual charges; without these unusual charges the increase would have been \$15,092,000 (15.6%). These unusual charges are related to environmental matters and costs associated with the downsizing and restructuring of certain acquired companies. The charges include approximately \$2,000,000 relating to the resolution of environmental litigation arising under CERCLA (Comprehensive Environmental Response, Compensation, and Liability Act) involving a manufacturing facility sold in 1978, and clean-up costs relating principally to certain of the Company's foundry operations; a \$3,000,000 accrual for estimated future environmental clean-up costs; and \$2,000,000 relating to downsizing of certain previously acquired operations which have been negatively impacted by reduced military spending and to the consolidation and relocation of the operations of a previously acquired company. The balance of the increased expenses is due to the inclusion of expenses of Interme and the other acquired companies discussed above, and increased international selling expenses. The Company from time to time is involved with environmental proceedings and incurs costs on an on-going basis related to environmental matters.

Interest expense increased \$1,273,000 (16.2%) to \$9,152,000 due to the issuance on November 26, 1991 of \$75,000,000 aggregate principal amount of the Company's 8-3/8% Notes Due 2003 and the inclusion of the interest expense of

Management's Discussion (cont'd.)

Intermes. These increases were partially offset by the conversion of \$44,000,000 aggregate principal amount of the Company's 7-3/4% Convertible Subordinated Debentures Due 2014 into Class A Common Stock on or prior to March 15, 1992. Other expense increased \$417,000 (50.2%) to \$1,248,000 primarily due to the inclusion of the company's share of the net loss of a partially owned subsidiary of Intermes.

Earnings before income taxes decreased \$10,799,000 (18.0%) to \$49,140,000. Net earnings before the change in accounting method decreased \$6,219,000 (17.0%) to \$30,406,000. If the Company had not incurred the \$7,000,000 of unusual charges, net earnings before the change in accounting method would have decreased \$1,880,000 (5.1%).

Effective retroactively to July 1, 1992, the Company changed its method of accounting for income taxes from the deferred method to the liability method required by FASB Statement No. 109, "Accounting for Income Taxes". The change is required for the Company's fiscal year beginning July 1, 1993 (fiscal 1994), however, the Company has elected early adoption of the new rules. As permitted under the new rules, prior years' financial statements were not restated. The cumulative effect of adopting Statement No. 109 as of July 1, 1992 is to decrease net earnings \$3,132,000 or \$.10 per share for the current fiscal year. The on-going effect of the net income tax rules is expected to decrease pre-tax income by approximately \$100,000 per year because of increased depreciation expense as a result of Statement No. 109's requirement to report assets acquired in prior business combinations at their pre-tax amounts. The net deferred tax liabilities at June 30, 1993 will not be materially affected by the recently enacted federal corporate income tax rate increase.

The change in foreign exchange rates since June 30, 1992 did not have a material impact on the results of operations or the financial condition of the Company.

The weighted average number of common shares outstanding on June 30, 1993 increased to 30,089,898 from 28,325,552 for the period ended June 30, 1992 due to the conversion of the Company's 7-3/4% Convertible Subordinated Debentures Due 2014 described above. Primary earnings per share decreased to \$.91 for the fiscal year ended June 30, 1993 from \$1.29 for the fiscal year ended June 30, 1992. Fully diluted earnings per share decreased to \$.91 from \$1.27 for the same periods.

The following table illustrates the reasons for the changes in fully diluted earnings per share:

	Fiscal Year Ended June 30,	
	1993	1992
Earnings per share as reported.....	\$.91	\$1.27
Change in accounting method.....	.10	
Impact of unusual charges.....	.15	
	-----	-----
	\$1.16	\$1.27
	=====	=====

Liquidity and Capital Resources

During the fiscal year ended June 30, 1994, the Company repurchased 342,700 shares on a pre-split basis of its Class A Common Stock through open market repurchases for an aggregate purchase price of \$12,064,000. The Company's repurchase program is now complete. In July, 1993, a subsidiary of the Company purchased Ancon Products, Inc. located in Scarborough, Ontario, Canada. Ancon manufactures a wide range of floor and roof drains, interceptors, backwater valves, yard hydrants, and stainless and carbon steel specialty products used primarily in commercial and industrial construction applications. In November, 1993, a subsidiary of the Company also purchased Enpoco Canada, Ltd., a manufacturer of drains located in Ontario, Canada. The aggregate purchase price for these acquisitions was U.S. \$4,783,000. The Company also repaid \$1,935,000 of debt acquired with one of the companies. The Company made contingent purchase price payments of \$6,094,000 as part of the Intermes acquisition. The Company

also spent \$19,928,000 on capital expenditures, primarily manufacturing machinery and equipment. The Company is budgeting \$27,000,000 of capital expenditures in the fiscal year ending June 30, 1995, as part of its commitment to continuously improve its manufacturing capabilities.

Working capital at June 30, 1994 was \$246,531,000 compared to \$222,652,000 at June 30, 1993. Cash and short-term investments were \$65,000,000 at June 30, 1994 compared to \$83,135,000 at June 30, 1993. The ratio of current assets to current liabilities was 4.3 to 1 at June 30, 1994 compared to 3.8 to 1 at June 30, 1993. Debt as a percentage of total capital employed was 21.4% at June 30, 1994 compared to 23.7% at June 30, 1993.

Subsequent to fiscal year end, on July 28, 1994, the Company purchased Jameco Industries, Inc. ("Jameco") of Wyandanch, New York, for a cash purchase price of \$35,200,000. Jameco is a manufacturer of metal and plastic water supply products, including valves, tubular products and sink strainers that are sold primarily to residential construction and home repair and remodeling markets in the United States and overseas. Jameco had net sales of approximately \$56,000,000 for the twelve months ended June 30, 1994.

In August, 1994, the Company entered into a joint venture with a valve company in Tianjin, People's Republic of China. The Company will invest a total of \$8,500,000 for a 60% interest in the joint venture during fiscal year 1995.

In August, 1994, the Company acquired the Cryolab valve product line from SAES Pure Gas, Inc. for a total purchase price of approximately \$890,000. Cryolab will be integrated into the existing cryogenic valve business at the Company's wholly-owned subsidiary, Circle Seal Controls of Corona, California.

In order to support the Company's acquisition program, working capital requirements which would arise due to acquisitions, and for general corporate purposes, the Company received a five-year commitment for an unsecured line of credit for \$125,000,000.

The Company anticipates that available funds and those funds provided from current operations will be sufficient to meet current operating requirements and anticipated capital expenditures for at least the next 24 months.

Quarterly Information

Fiscal Quarters	1994		1993		Dividends Per Share	
	High	Low	High	Low	1994	1993
First	22-1/16	17-1/8	24-1/2	22	\$.045	\$.035
Second	25-1/4	21-1/4	25-1/8	22	.045	.035
Third	28-5/8	23-1/2	24-1/4	19-1/2	.055	.045
Fourth	27	22-1/4	20-5/8	17-11/16	.055	.045
Year					\$.20	\$.16

Fifteen Year Financial Summary
(Amounts in thousands, except per share information)

Operating Data	1994	1993	1992	1991	1990
Net sales	\$518,541	\$465,796	\$423,808	\$350,780	\$291,861
Gross profit	196,205	173,693	161,004	134,790	115,167
% of net sales	37.8	37.3	38.0	38.4	39.5
Selling, general and administrative expenses	121,597	118,550	96,458	80,584	68,552
% of net sales	23.4	25.5	22.8	23.0	23.5
Operating income	74,608	55,143	64,546	54,206	46,615
% of net sales	14.4	11.8	15.2	15.5	16.0
Earnings before income taxes	67,335	49,140	59,939	51,332	44,223
% of net sales	13.0	10.55	14.1	14.6	15.2
Provision for income taxes	26,325	18,734	23,314	19,651	16,521
% of earnings before income taxes	39.1	38.1	38.9	38.2	37.4
Net earnings	41,010	27,274	36,625	31,681	27,702
% of net sales	7.9	5.9	8.6	9.0	9.5
Net earnings before unusual charges & accounting change	--	34,745	--	--	--
% of net earnings before unusual charges & accounting change	--	7.5	--	--	--
Investment Data					
Total assets	\$558,850	\$535,675	\$475,620	\$353,223	\$286,761
Cash and short-term investments	65,000	83,135	108,877	76,049	42,031
Current assets	320,879	301,192	301,291	229,583	181,089
Current ratio	4.3 to 1	3.8 to 1	5.5 to 1	5.1 to 1	4.3 to 1
Working capital	246,531	222,652	246,355	184,796	138,640
Capital expenditures	19,928	25,798	18,054	14,101	17,788
Depreciation and amortization expense	22,393	20,560	17,630	13,581	11,561
Net property, plant and equipment	136,249	134,261	105,373	90,309	80,290
Capital employed:					
Total debt	98,620	103,834	96,564	66,209	71,100
Stockholders' equity	361,551	335,120	314,893	235,715	170,775
Capital employed	460,171	438,954	411,457	301,924	241,875
Debt as a % of capital employed	21.4	23.7	23.5	21.9	29.4
Return on Investment Data					
Return on average stockholders' investment less ending cash and short-term investments - %	14.2	10.5	17.5	20.1	20.8
Return on average stockholders' investment - %	11.8	8.4	13.7	15.8	17.6
Per Share Data					
Net earnings - Fully diluted/Before unusual charges & accounting change	\$1.38	\$.91/1.16	\$1.27	\$1.18	\$1.06
Common cash dividends paid	.20	.16	.13	.11	.09
Ending stockholders' equity	12.18	11.14	11.12	9.03	6.72
Weighted average shares outstanding - Fully diluted	29,717	30,098	30,080	28,707	27,955

Please refer to acquisition history on page 28.

Operating Data	1989	1988	1987	1986	1985
Net sales	\$223,871	\$181,353	\$145,561	\$137,004	\$124,372
Gross profit	86,612	72,628	59,641	54,650	48,384
% of net sales	38.7	40.0	41.0	39.9	38.9
Selling, general and administrative expenses	48,483	40,502	31,608	30,606	26,948
% of net sales	21.7	22.3	21.7	22.3	21.7
Operating income	38,129	32,126	28,033	24,044	21,436
% of net sales	17.0	17.7	19.3	17.5	17.2
Earnings before income taxes	37,758	31,058	27,611	24,197	21,732
% of net sales	16.9	17.1	19.0	17.7	17.5
Provision for income taxes	14,743	12,133	13,306	11,427	10,312
% of earnings before income taxes	39.0	39.1	48.2	47.2	47.5
Net earnings	23,015	18,925	14,305	12,770	11,420
% of net sales	10.3	10.4	9.8	9.3	9.2
Net earnings before unusual charges & accounting change	--	--	--	--	--
% of net earnings before unusual charges & accounting change	--	--	--	--	--
Investment Data					
Total assets	\$246,821	\$176,760	\$148,241	\$115,337	\$103,829
Cash and short-term investments	79,099	40,405	41,905	16,735	11,905
Current assets	175,333	118,925	99,542	71,590	65,124
Current ratio	5.8 to 1	5.1 to 1	6.6 to 1	5.6 to 1	3.7 to 1
Working capital	145,300	95,734	84,345	58,831	47,636
Capital expenditures	12,257	10,704	7,127	11,688	9,840
Depreciation and amortization expense	8,807	6,793	5,399	4,356	3,261
Net property, plant and equipment	59,225	52,877	44,793	38,659	31,496
Capital employed:					
Total debt	67,165	24,448	23,045	23,611	21,582
Stockholders' equity	143,714	122,944	104,982	75,813	64,052
Capital employed	210,879	147,392	128,027	99,424	85,634
Debt as a % of capital employed	31.9	16.6	18.0	23.7	25.2
Return on Investment Data					
Return on average stockholders' investment less ending cash and short-term investments - %	21.9	23.1	21.0	21.7	24.5
Return on average stockholders' investment - %	17.3	16.6	15.8	18.3	19.4
Per Share Data					
Net earnings - Fully diluted/Before unusual charges & accounting change	\$.91	\$.75	\$.58	\$.56	\$.50
Common cash dividends paid	.07	.05	.03	.04	.02
Ending stockholders' equity	5.69	4.88	4.23	3.31	2.80
Weighted average shares outstanding - Fully diluted	25,922	25,186	24,816	22,896	22,870

Operating Data	1984	1983	1982	1981	1980
Net sales	\$102,551	\$77,211	\$71,626	\$66,023	\$54,777
Gross profit	39,912	30,608	25,253	21,734	16,668
% of net sales	38.9	39.6	35.3	32.9	30.4
Selling, general and administrative expenses	22,517	17,732	14,469	11,838	10,442
% of net sales	22.0	23.0	20.2	17.9	19.1
Operating income	17,395	12,876	10,784	9,896	6,226
% of net sales	17.0	16.7	15.1	15.0	11.4
Earnings before income taxes	17,818	13,226	11,283	9,919	6,216
% of net sales	17.4	17.1	15.8	15.0	11.3
Provision for income taxes	8,306	5,975	4,895	4,765	3,024
% of earnings before income taxes	46.6	45.2	43.4	48.0	48.6
Net earnings	9,512	7,251	6,388	5,154	3,192
% of net sales	9.3	9.4	8.9	7.8	5.8
Net earnings before unusual charges & accounting change	--	--	--	--	--
% of net earnings before unusual charges & accounting change	--	--	--	--	--
Investment Data					
Total assets	\$80,745	\$67,369	\$58,150	\$49,756	\$34,476
Cash and short-term investments	18,966	11,772	13,319	4,020	2,819
Current assets	60,671	50,092	43,332	35,407	24,026
Current ratio	3.8 to 1	4.3 to 1	4.1 to 1	2.8 to 1	4.5 to 1
Working capital	44,701	38,521	32,659	22,948	18,694
Capital expenditures	5,081	5,670	1,483	2,100	2,229
Depreciation and amortization expense	2,357	1,954	1,710	1,779	924
Net property, plant and equipment	19,582	16,956	13,419	13,647	7,635
Capital employed:					
Total debt	9,707	10,145	9,249	6,215	4,009
Stockholders' equity	53,475	44,622	37,393	31,255	25,537
Capital employed	63,182	54,767	46,642	37,470	29,546
Debt as a % of capital employed	15.4	18.5	19.8	16.6	13.6
Return on Investment Data					
Return on average stockholders' investment less ending cash and short-term investments - %	25.9	22.9	22.1	19.3	14.4
Return on average stockholders' investment - %	19.4	17.7	18.6	17.9	13.3
Per Share Data					
Net earnings - Fully diluted/Before unusual charges & accounting change	\$.42	\$.32	\$.26	\$.21	\$.15
Common cash dividends paid	--	--	.01	--	--
Ending stockholders' equity	2.34	1.95	1.55	1.30	1.22
Weighted average shares outstanding - Fully diluted	22,860	22,860	24,110	24,122	20,890

Acquisitions (Fiscal Years)

1995-Tianjin Tanggu Watts Valve Company, Ltd., Jameco Industries, Inc.,
Cryolab

1994-Enpoco,
LeHage Industries, Inc.

1993-Edward Barber & Company Ltd.,
Intermes Group,
Rockford Controls,
Waletzko GmbH

1992-Contromatics,
Henry Pratt Company

1991-Bailey,
SFR-France,
Circle Seal Controls

1990-Nicholson Steam Trap,
Leslie Controls

1989-Eagle Valve Company,
KF Industries,
Taras Valve,
Epps Mfg. Ltd.,
A.S.M.E. Steam Pop Relief Valves

1988-Ocean B.V.,
Flippen Float Valves

1987-Muesco Valve Company,
Prier Frost-Proof Hydrants,
James Jones Company

1985-Spence Engineering Company,
Hale Oilfield Products

1874-Watts Regulator Company - Founded

**A LEADER IN VALVE TECHNOLOGY
WATTS(R)
INDUSTRIES, INC.
SINCE 1874**

(INSIDE BACK COVER)

Directors

Timothy P. Horne
Chairman of the Board,
President and
Chief Executive Officer
of the Corporation

David A. Bloss, Sr.
Executive Vice President
of the Corporation

Kenneth J. McAvoy
Chief Financial Officer,
Treasurer, Secretary
of the Corporation

Frederic B. Horne
Corporate Vice President
of the Corporation

Noah T. Herndon
Partner of Brown Brothers
Harriman & Company

Gordon W. Moran
President and Chief Executive
Officer
Hollingsworth & Vose Company

Wendy E. Lane
Chairman
Lane Holdings, Inc.

Daniel J. Murphy, III
Chairman
Northmark Bank

Corporate Officers
Timothy P. Horne
Chairman of the Board,
President and
Chief Executive Officer

David A. Bloss, Sr.
Executive Vice President

Kenneth J. McAvoy
Chief Financial Officer,
and Executive Vice President
of European Operations

Frederic B. Horne
Corporate Vice President

Suzanne M. Zabitchuck
Corporate Counsel and
Assistant Secretary

William C. McCartney
Vice President of
Finance and Controller

Robert T. McLaurin
Corporate Vice President
Asian Operations

Michael O. Fifer
Vice President
Corporate Development

Division Officers
Paul A. Lacourciere
Executive Vice President
Watts Regulator Company

Kevin R. Sweeney
Executive Vice President
Water Products Division

Ernest E. Elliott
Vice President
Water Products Division

Alfred S. Schommer
Group Vice President
Industrial and Oil & Gas

Edward G. Holtgraver
Group Vice President
Municipal Water

Charles S. Wolley
Group Vice President
Steam

Victor L. Pitt
President
Watts Industries (Canada) Inc.

Jean-Marc Sassier
Managing Director
Watts Industries Europe

Corporate Information

Executive Offices
815 Chestnut Street
North Andover, MA 01845-6098
Tel. (508) 688-1811
Fax: (508) 688-5841

Registrar and Transfer Agent
The First National Bank of Boston
100 Federal Street
Boston, MA 02110

Counsel
Goodwin, Procter & Hoar
Exchange Place
Boston, MA 02109

Auditors
Ernst & Young
200 Clarendon Street
Boston, MA 02116

Annual Meeting
October 18, 1994
10:00 am
Andover Inn
Andover, MA

Stock Listing
National Market System
of NASDAQ
Ticker Symbol: WATTA

Form 10-K
Stockholders may obtain
without charge a copy of the
Company's most recent Annual
Report on Form 10-K filed
with the Securities and Exchange
Commission by writing to
Watts Industries, Inc.
Attn: Chief Financial Officer
815 Chestnut St.
North Andover, MA 01845-6098

(BACK COVER)

The Companies of Watts Industries, Inc.

PLUMBING & HEATING

Watts Regulator Company, Water Products Division North Andover, MA

Watts Industries (Canada) Inc. Woodbridge, Ontario, Canada

Watts SFR SA, Fressenneville, France

Intermes SpA, Caldaro, Italy

MTR GmbH, Gemmrigheim, Germany

G.R.C. Controls S.A., Badalona (Barcelona), Spain

Jameco Industries, Inc., Wyandanch, NY

WATER QUALITY

Watts Regulator Company, Backflow Prevention Division North Andover, MA

Watts Ocean B.V., AB Eerbeek, Netherlands

MUNICIPAL WATER

Henry Pratt Company, Aurora, IL

James Jones Company, El Monte, CA

Watts ACV, Inc., Houston, TX

Edward Barber & Company, Ltd., United Kingdom

Tianjin Tangu Watts Valve Company, Ltd.
Tianjin, People's Republic of China

STEAM

Leslie Controls, Inc., Tampa, FL

Spence Engineering Company, Inc., Walden, NY

Nicholson Steam Trap, Inc., Walden, NY

R.G. Laurence Company, Inc., Tampa, FL

INDUSTRIAL

Watts Regulator Co, Industrial Division
North Andover, MA

Contromatics, Milford, NH

Circle Seal Controls, Inc., Corona, CA

OIL & GAS

KF Industries, Inc., Oklahoma City, OK

Hale Oilfield Products, Houston, TX

(WATTS COMPANY LOGO)

End of Filing

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