

WATTS WATER TECHNOLOGIES INC

FORM 10-Q (Quarterly Report)

Filed 2/9/1994 For Period Ending 12/31/1993

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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

/ X/ Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended December 31, 1993 or

// Transition report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-14787

WATTS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

04-2916536
(I.R.S. Employer
Identification No.)

815 Chestnut Street, North Andover, MA
(Address of principal executive offices)

01845
(Zip Code)

Registrant's telephone number, including area code (508) 688-1811

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at January 31, 1994
Class A Common, \$.10 par value	8,979,989
Class B Common, \$.10 par value	5,744,335

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Amounts in thousands except share information)
 (Unaudited)

ASSETS	Dec. 31, 1993	June 30, 1993
	-----	-----
CURRENT ASSETS		
Cash and cash equivalents..... \$	6,808	\$ 16,937
Short-term investments.....	52,165	66,198
Trade accounts receivable, less allowance for doubtful accounts of \$4129 and \$3565.	81,046	68,099
Inventories:		
Finished goods.....	44,923	48,910
Work in process.....	39,273	33,939
Raw materials.....	49,501	49,064
	-----	-----
Prepaid expenses and other current assets..	133,697	131,913
Deferred income taxes.....	10,141	9,494
	9,529	8,551
	-----	-----
Total Current Assets.....	293,386	301,192
OTHER ASSETS		
Goodwill, net of accumulated amortization..	89,799	87,017
Other.....	12,746	13,205
PROPERTY, PLANT AND EQUIPMENT		
Property, plant and equipment-at cost.....	225,992	218,247
Less allowance for depreciation.....	(92,788)	(83,986)
	-----	-----
Property, plant and equipment-net.....	133,204	134,261
	-----	-----
TOTAL ASSETS..... \$	529,135	\$ 535,675
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable..... \$	20,290	\$ 21,180
Accrued expenses.....	36,553	40,441
Accrued compensation and related items.....	6,796	10,059
Income taxes.....	993	4,494
Notes payable and current portion of long-term debt.....	1,738	2,366
	-----	-----
Total Current Liabilities.....	66,370	78,540
LONG-TERM DEBT, less current portion.....	99,775	101,468
DEFERRED INCOME TAXES.....	13,667	13,435
OTHER LIABILITIES.....	9,256	7,112
STOCKHOLDERS' EQUITY		
Class A Common Stock,\$.10 par value; 40,000,000 shares authorized, 8,958,889 shares issued and outstanding.....	896	923
Class B Common Stock,\$.10 par value; 13,000,000 shares authorized, 5,744,635 shares issued and outstanding.....	574	574
Additional paid-in capital.....	91,743	101,491
Retained earnings.....	253,494	235,052
Equity adjustment from translation.....	(6,640)	(2,920)
	-----	-----
Total Stockholders' Equity.....	340,067	335,120
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY... \$	529,135	\$ 535,675
	=====	=====

See accompanying notes to condensed consolidated financial statements.

Certain amounts as of June 30, 1993 have been reclassified to permit comparison with December 31, 1993.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED EARNINGS
(Amounts in thousands except per share data)
(Unaudited)

	Three Months Ended	
	Dec. 31, 1993	Dec. 31, 1992
Net sales.....	\$ 127,734	\$ 113,909
Cost of goods sold.....	78,392	70,010
GROSS PROFIT.....	49,342	43,899
Selling, general & administrative expenses...	30,263	26,984
Unusual charges.....		7,000
OPERATING INCOME.....	19,079	9,915
Other (income) expense:		
Interest income.....	(727)	(1,003)
Interest expense.....	2,204	2,594
Other-net.....	415	203
	1,892	1,794
EARNINGS BEFORE INCOME TAXES	17,187	8,121
Provision for income taxes.....	6,639	3,125
NET EARNINGS.....	\$ 10,548	\$ 4,996
	=====	=====
Earnings per share: Primary.....	\$.71	\$.33
Fully Diluted.....	\$.71	\$.33
Cash dividends per share.....	\$.09	\$.07
See accompanying notes to condensed consolidated financial statements.		

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED EARNINGS
(Amounts in thousands except per share data)
(Unaudited)

	Six Months Ended	
	Dec. 31, 1993	Dec. 31, 1992
Net sales.....	\$ 258,315	\$ 223,525
Cost of goods sold.....	159,701	138,440
Cost of goods sold.....	-----	-----
GROSS PROFIT.....	98,614	85,085
Selling, general & administrative expenses...	60,357	51,079
Unusual charges.....	-----	7,000
OPERATING INCOME.....	38,257	27,006
Other (income) expense:		
Interest income.....	(1,525)	(2,581)
Interest expense.....	4,568	4,728
Other-net.....	754	506
	-----	-----
	3,797	2,653
	-----	-----
EARNINGS BEFORE INCOME TAXES AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING FOR INCOME TAXES.....	34,460	24,353
Provision for income taxes.....	13,375	9,425
	-----	-----
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE.....	21,085	14,928
Cumulative effect on prior years (to June 30, 1992) of change in accounting		3,132
	-----	-----
NET EARNINGS.....	\$ 21,085	\$ 11,796
	=====	=====
Primary and fully-diluted earnings per share:		
Earnings before cumulative effect of accounting change.....	\$ 1.42	\$.99
Cumulative effect of accounting change.....	-----	-.21
Net earnings.....	\$ 1.42	\$.78
	=====	=====
Cash dividends per share.....	\$.18	\$.14
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended	
	Dec. 31, 1993	Dec. 31, 1992
OPERATING ACTIVITIES		
Net earnings	\$ 21,085	\$ 11,796
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	11,027	9,663
Provision for deferred income taxes	(155)	(572)
Cumulative effect of change in accounting for income taxes		3,132
(Gain)Loss on disposal of fixed assets	(21)	35
Changes in oper. assets and liab., net of effects from business acquisitions:		
Accounts receivable	(11,419)	(2,760)
Inventories	(253)	(5,020)
Prepaid expenses and other assets	(265)	(1,980)
Accounts payable and accrued expenses	(5,385)	(4,985)
NET CASH PROVIDED BY OPERATING ACTIVITIES	14,614	9,309
INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(8,418)	(12,889)
Proceeds from disposal of fixed assets	67	46
Increase in intangible assets	(1,068)	(970)
Business acquisitions, net of cash acquired:		
Waletzko Armaturen		(1,970)
Rockford Controls		(1,958)
Intermes Group	(6,094)	(17,000)
Other Acquisitions	(4,927)	
Repayment of debt of acquired businesses	(1,964)	
Net changes in short-term investments	14,033	11,742
NET CASH (USED IN) INVESTING ACTIVITIES	(8,371)	(22,999)
FINANCING ACTIVITIES		
Purchase of treasury stock	(12,064)	
Proceeds from exercise of stock options	1,444	517
Proceeds of short-term borrowings	415	12,521
Payments of long-term debt	(2,533)	(394)
Cash dividends	(2,643)	(2,091)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(15,381)	10,553
Effect of exchange rates on cash and cash equivalents	(991)	(154)
DECREASE IN CASH AND CASH EQUIVALENTS	(10,129)	(3,291)
Cash and cash equiv. at beginning of period	16,937	9,989
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,808	\$ 6,698
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all necessary adjustments, consisting only of adjustments of a normal recurring nature, to present fairly Watts Industries, Inc.'s Condensed Consolidated Balance Sheet as of December 31, 1993, the Condensed Statements of Consolidated Earnings for the three and six months ended December 31, 1993 and December 31, 1992, and the Condensed Statements of Consolidated Cash Flows for six months ended December 31, 1993 and December 31, 1992.

The balance sheet at June 30, 1993 has been derived from the audited financial statements at that date. The accounting policies followed by the Company are described in the June 30, 1993 financial statements which are contained in the Company's 1993 Annual Report. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the Annual Report to stockholders.

2. On November 6, 1992, an indirect subsidiary of the Company acquired Interme, S.p.A. ("Interme") for an aggregate cash purchase price of U.S. \$17,000,000 plus a contingent payment that will total U.S. \$8,500,000, plus the assumption of \$23,000,000 of debt. \$6,094,000 of this contingency was paid during the quarter ended September 30, 1993 with the remainder scheduled to be paid over a five-year period. Interme, headquartered in Caldaro, Italy, manufactures and sells plumbing and heating valves and controls through wholesaler distribution. In addition, Interme partially owns I.S.I., S.p.A. ("ISI") located in Pergine Valsugana, Italy. ISI manufactures butterfly valves and other valve products relating to municipal water markets. Interme's sales for the twelve-month period ended June 30, 1993 were approximately U.S.\$42,800,000.

On May 18, 1993, the Company acquired Edward Barber (UK) Limited ("EBCO"). Headquartered in Tottenham, London, EBCO manufactures and sells valves, meter boxes, and accessories to the municipal water market. Sales of EBCO for the twelve months ended December 31, 1992 were approximately \$11,500,000. The company, which was founded in 1908, also operates a non-ferrous foundry operation in nearby Willesden.

3. Effective July 1, 1993, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions". The Statement requires that the projected future cost of providing postretirement benefits, such as health care and life insurance, be recognized on an accrual basis as employees render service instead of when benefits are paid. The extent of these types of benefits provided by the Company is limited to one of its subsidiaries acquired on September 30, 1991. Based on the acquisition date of this subsidiary and the adoption date of July 1, 1993, the Company is required under the Statement to account for the projected liability for these benefits on a prospective basis and has elected to adjust its purchase price allocation for the acquisition. Accordingly, the Company has recorded a liability of \$2,087,000 and a corresponding increase to goodwill and related deferred tax asset. The effect of the adoption on operating results from the date of acquisition to June 30, 1993 was immaterial.

4. Effective July 1, 1992, the Company changed its method of accounting for income taxes from the deferred method to the liability method required by SFAS No. 109, "Accounting for Income Taxes". As permitted under the new rules, prior years' financial statements have not been restated.

The cumulative effect of adopting SFAS No. 109 as of July 1, 1992 was to decrease net income by \$3,132,000, for the fiscal year ended June 30, 1993. Application of the new income tax rules decreased pretax income by approximately \$100,000 because of increased depreciation expense as a result of SFAS No. 109's requirement to report assets acquired in prior business combinations at their pretax amounts.

5. The Company is currently a party to or otherwise involved with various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a number of sites, in some cases as a participant in a group of potentially responsible parties. Three of these sites, the Sharkey and Combe Landfills in New Jersey and the San Gabriel Valley/El Monte, California water basin matter, are listed on the National Priorities List. With respect to the Sharkey Landfill, the Company has been allocated .75% of the remediation costs, an amount which is not material to the Company. Based on recent developments, the Company elected not to enter into the de minimis settlement proposal. No allocations have been made to date with respect to the other two sites. With respect to the Combe Landfill, the Company is one of approximately 23 potentially responsible parties.

Given the number of parties involved in most environmental sites, the multiplicity of possible solutions, the evolving technology and the years of remedial activity required, it is difficult to estimate with certainty the total cost of remediation, the timing and extent of remedial actions which may be required, and the amount of liability, if any, of the Company alone or in relation to that of other responsible parties. Based on facts presently known to it, the Company does not believe that the outcome of these proceedings will have a material adverse effect on its financial condition.

The Company has established balance sheet accruals which it currently believes are adequate in light of the potential exposure of pending and threatened environmental litigation and proceedings of which it has knowledge. In this regard, with respect to certain of these matters, the Company has resort either to some degree of insurance coverage or indemnifications from third parties which are expected to defray to some extent the effect thereof. With respect to insurance, coverage of some of these claims has been disputed by the carriers based on standard reservations and, therefore, recovery may be somewhat questionable, a factor which has been considered in the Company's evaluation of these matters. Although difficult to quantify based on the complexity of the issues and the limitation on available information, the Company believes that its accruals for the estimated costs associated with such matters adequately provide for the Company's estimated foreseeable liability for these sites, however, given the nature and scope of the Company's manufacturing operations, there can be no assurance that the Company will not become subject to

other environmental proceedings and liabilities in the future.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

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

Results of Operations

Quarter Ended December 31, 1993 Compared to Quarter Ended December 31, 1992

Net sales increased \$13,825,000 (12.1%) to \$127,734,000. This increase was primarily attributable to the inclusion of the net sales of acquired companies. The net sales of Interme, S.p.A. ("Interme") acquired in November 1992, Edward Barber Company ("EBCO") acquired in May 1993, and Ancon Products, Inc. ("Ancon") acquired in July 1993 represented approximately 66% of the increase. The Company had increased unit shipments of oil and gas valves, water plumbing and heating valves, and steam valves, as well as decreased unit shipments of aerospace/military valves. The Company believes this decrease in aerospace/military valves to be a long-term situation. 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 \$5,443,000 (12.4%) to \$49,342,000 and increased as a percentage of net sales from 38.5% to 38.6%. This increase in gross profit was primarily attributable to improved manufacturing performance and increased sales levels in the Company's European subsidiaries and the decreased cost of bronze ingot.

Selling, general and administrative expenses decreased \$3,721,000 (11.0%) to \$30,263,000. The Company recorded \$7,000,000 of unusual charges in the quarter ended December 31, 1992 for environmental matters and costs associated with the downsizing and restructuring of certain acquired companies. Selling, general and administrative expenses would have increased \$3,279,000 (12.1%) without these charges. This increase is primarily attributable to the inclusion of the expenses of Interme and other acquired companies discussed above. These increased expenses were partially offset by reduced spending at several subsidiaries as a result of downsizing programs implemented during last fiscal year.

Interest income decreased \$276,000 (27.5%) to \$727,000. This decrease is primarily attributable to the decreased levels of cash and short-term investments. Interest expense decreased \$390,000 (15.0%) to \$2,204,000. This decrease is attributable to the decreased levels of long-term debt.

Earnings before income taxes increased \$9,066,000 (111.6%) to \$17,187,000. Earnings before income taxes and the unusual charges increased \$2,066,000 (13.7%). Net earnings increased \$5,552,000 (111.1%) to \$10,548,000. Net earnings before unusual charges increased \$1,212,000 (13.0%).

The weighted average number of common shares outstanding on December 31, 1993 decreased to 14,816,464 from 15,053,205 for primary earnings per share. This decrease is the result of the purchase by the Company of 342,700 shares of Class A common stock. Primary and fully diluted earnings per share were \$.71 for the quarter ended December 31, 1993 compared to \$.62 before unusual charges for the quarter ended December 31, 1992.

The following table illustrates the change in earnings per share for the quarter ended December 31st:

	1993	1992
Earnings per share as reported	\$.71	\$.33
Unusual charges	\$.29	
	-----	-----
	\$.71	\$.62

Six Months Ended December 31, 1993 Compared to Six Months Ended December 31, 1992

Net sales increased \$34,790,000 (15.6%) to \$258,315,000. This increase is primarily attributable to the inclusion of the net sales of acquired companies. The net sales of Intermes, Edward Barber Company, and Ancon represented approximately 68% of the increase. The Company had increased unit shipments of oil and gas valves, water plumbing and heating valves, steam valves, and increased international sales, as well as decreased unit shipments of aerospace/military valves.

Gross profit increased \$13,529,000 (15.9%) to \$98,614,000 and increased as a percentage of sales from 38.1% to 38.2%. This increase is primarily attributable to improved manufacturing performance and sales levels in the Company's international subsidiaries, and the decreased cost of bronze ingot.

Selling, general and administrative expenses increased \$2,278,000 (3.9%) to \$60,357,000. Selling, general and administrative expenses would have increased \$9,278,000 (18.2%) without the \$7,000,000 of unusual charges in the period ended December 31, 1992. 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 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. See Note 5 to Notes of Condensed Consolidated Financial Statements for further discussion.

Interest income decreased \$1,056,000 (40.9%) to \$1,525,000 due to decreased levels of cash and short-term investments. Earnings before income taxes and unusual charges increased \$3,107,000 (9.9%) to \$34,460,000. Net earnings before unusual charges and the cumulative effect of the change in accounting method due to the implementation of SFAS No. 109 as described in Footnote 4 increased \$1,817,000 (9.4%).

The weighted average number of common shares outstanding on December 31, 1993 decreased to 14,817,924 from 15,049,041 for primary earnings per share. This decrease is the result of the purchase by the Company of 342,700 shares of Class A Common Stock during the current fiscal year. Primary and fully diluted earnings per share were \$1.42 for the six months ended December 31, 1993 compared to \$1.28 before unusual charges and the cumulative effect of the accounting change in accounting method for the six months ended December 31, 1992.

The following table illustrates the change in earnings per share for the six months ended December 31st:

	1993	1992
Earnings per share as reported	\$1.42	\$.78
Unusual charges		\$.29
Cumulative effect of change in accounting method		\$.21
	-----	-----
	\$1.42	\$1.28

Liquidity and Capital Resources

During the six months ended December 31, 1993, the Company purchased 342,700 shares of its Class A common stock through open market repurchases for an aggregate price of \$12,064,000. 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. The Company also purchased Enpoco Canada, Ltd., a manufacturer of drains located in Ontario, Canada. The aggregate purchase price for these acquisitions was \$4,927,000. The Company also repaid \$1,846,000 of debt acquired with one of the companies. The Company made contingent payments of \$6,094,000 as part of the Intermees acquisition. The Company also spent \$8,418,000 on capital expenditures as part of its current fiscal year budget of \$22,000,000.

The principal sources of funds to finance these acquisitions, capital expenditures, debt repayments and stock repurchases were the issuance by the Company on November 26, 1991 of \$75,000,000 aggregate principal amount of its 8.375% Notes Due 2003 and funds provided from operations.

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.

Working capital at December 31, 1993 was \$227,016,000 compared to \$222,652,000 at June 30, 1993. Cash and short-term investments were \$58,973,000 at December 31, 1993 compared to \$83,135,000 at June 30, 1993. The ratio of current assets to current liabilities was 4.4 to 1 at December 31, 1993 compared to 3.8 to 1 at June 30, 1993. Debt as a percentage of capital employed was 23.0% at December 31, 1993 compared to 23.7% at June 30, 1993.

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

Item 4. Submission of Matters to Vote of Security Holders

(a) The annual meeting of stockholders of the Company was held on October 19, 1993.

(c) The results of the voting on the proposals considered at the annual meeting of stockholders are as follows:

1. Election of Directors

Timothy P. Horne, Charles W. Grigg, Frederic B. Horne, Noah T. Herndon, Gordon W. Moran and Daniel J. Murphy, III were each elected as a Director of the Company for a term expiring at the next annual meeting of stockholders and voting results were as follows:

Mr. T.Horne:65,469,407 votes FOR;10,696 votes WITHHELD. Mr. Grigg: 65,469,107 votes FOR;10,996 votes WITHHELD. Mr. F.Horne:65,469,107 votes FOR;10,996 votes WITHHELD. Mr. Herndon:65,471,107 votes FOR;10,996 votes WITHHELD. Mr. Moran: 65,470,807 votes FOR; 9,296 votes WITHHELD. Mr. Murphy: 65,470,807 votes FOR; 9,296 votes WITHHELD.

2. Ratification of Independent Auditors

The selection of Ernst & Young as the independent auditors of the Company for the current fiscal year was ratified and voting results were as follows:

65,465,951 FOR; 3,771 AGAINST; 10,381 ABSTAINED; and 0

Broker Non-Votes.

Item 5. Other Information

On January 18, 1994, the Board of Directors of the Corporation declared a two-for-one stock split of the Corporation's outstanding Class A Common Stock, par value \$.10 per share, and Class B Common Stock, par value \$.10 per share, to be effected in the form of a stock dividend equal to one share of Class A Common Stock for each share of Class A Common Stock outstanding on the record date, and one share of Class B Common Stock for each share of Class B Common Stock outstanding on the record date, all such shares to be fully paid and nonassessable. The stock dividend is payable on March 15, 1994 to holders of Class A Common Stock and Class B Common Stock of record as of the close of business on March 1, 1994. Upon the effectiveness of such dividend, there shall be designated as additional capital of the Corporation an amount equal to the aggregate par value of the shares of Class A Common Stock and Class B Common Stock of the Corporation being declared as a dividend.

Upon the effectiveness of such stock dividend, the Corporation shall increase by 100% the number of shares of Class A Common Stock reserved for issuance in connection with, and decrease by 50% the exercise price with respect to, any options heretofore granted and now outstanding and hereafter granted under the Corporation's 1986 Incentive Stock Option Plan, the 1989 Nonqualified Stock Option Plan, and the 1991 Non-Employee Directors' Nonqualified Stock Option Plan, all in accordance with the anti-dilution provisions of each such Plan. The number of shares of Class A Common Stock and the exercise price of each stock option granted prior to and outstanding as of the effective date of the dividend under the Corporation's 1986 Incentive Stock Option Plan, the 1989 Nonqualified Stock Option Plan, or the 1991 Non-Employee Directors' Nonqualified Stock Option Plan, respectively, and each option agreement outstanding thereunder, shall be adjusted so that the number of shares that may be purchased upon exercise of any such option agreement will be increased by 100% and the exercise price will be decreased by 50% per share.

The Board of Directors of the Corporation also voted on January 18, 1994 to increase the quarterly cash dividend paid on the Corporation's Class A Common Stock and Class B Common Stock by \$.02 per share to \$.11 per share on a present (pre-split) basis. The dividend will be payable on March 15, 1994 to stockholders of record on March 1, 1994.

Charles W. Grigg resigned effective January 18, 1994 as Director, President and Chief Operating Officer of the Company. The Board of Directors elected Timothy P. Horne, the Company's Chairman and Chief Executive Officer, to serve as President. The Board of Directors of Watts Industries, Inc. has also been increased to eight members and Ms. Wendy Lane, Chairman of Lane Holdings, Inc., a private equity investor, and Messrs. David A. Bloss, Sr. and Kenneth J. McAvoy, the Company's Executive Vice President and Chief Financial Officer, respectively, were elected as Directors. Ms. Lane is also a Director of Rexnord Corporation and formerly was a Managing Director at Donaldson, Lufkin & Jenrette Securities Corporation.

On January 1, 1994, Timothy P. Horne, Frederic B. Horne and George B. Horne executed the 1994 Designation of Primary and Secondary Designees of the Horne Family Voting Trust Agreement, appointing as successor trustees under such trust Mr. Noah T. Herndon, as the primary designee, and Mr. John R. LeClaire, Esq., as the secondary designee. Mr. Herndon is a Director of Watts Industries, Inc. and Mr. LeClaire is a partner at Goodwin, Procter & Hoar, a law firm which performs legal services for the Company.

Item 6 Exhibits and Reports Filed on Form 8-K

There were no reports filed on Form 8-K for the quarter

ended December 31, 1993.

Exhibit 11 -- Computation of Per Share Earnings

	Three Months Ended December 31	
	1993	1992
	-----	-----
	[C]	[C]
PRIMARY		

Average shares outstanding	14,691,042	14,932,345
Net effect of dilutive stock options - based on the treasury stock method using average market price	125,422	120,860
	-----	-----
Total	14,816,464	15,053,205
	=====	=====
Earnings before income taxes and cumulative effect of change in accounting for income taxes	\$ 17,187,546	\$ 8,120,657
Income taxes	6,639,656	3,125,095
	-----	-----
Earnings before cumulative effect of accounting change	10,547,890	4,995,562
Cumulative effect as of June 30, 1992 of change in method of accounting for income taxes		
	-----	-----
Net earnings	\$ 10,547,890	4,995,562
	=====	=====
Earnings per share:		
Earnings before cumulative effect of accounting change	\$.71	\$.33
Cumulative effect of accounting change		
	-----	-----
Net earnings	\$.71	\$.33
	=====	=====

		Six Months Ended December 31	
		1993	1992
		-----	-----
		[C]	[C]
PRIMARY			
- - - - -			
Average shares outstanding		14,726,282	14,926,605
Net effect of dilutive stock options - based on the treasury stock method using average market price		91,642	122,436
		-----	-----
Total		14,817,924	15,049,041
		=====	=====
Earnings before income taxes and cumulative effect of change in accounting for income taxes	\$	34,460,064	\$ 24,352,127
Income taxes		13,374,614	9,424,509
		-----	-----
Earnings before cumulative effect of accounting change		21,085,450	14,927,618
Cumulative effect as of June 30, 1992 of change in method of accounting for income taxes			-3,132,000
		-----	-----
Net earnings	\$	21,085,450	\$ 11,795,618
		=====	=====
Earnings per share:			
Earnings before cumulative effect of accounting change	\$	1.42	\$.99
Cumulative effect of accounting change			-.21
		-----	-----
Net earnings	\$	1.42	\$.78
		=====	=====

Watts Industries, Inc.
Exhibit 11 -- Computation of Per Share Earnings

		Three Months Ended December 31	
		1993	1992
		-----	-----
		[C]	[C]
FULLY DILUTED			

Average shares outstanding		14,691,042	14,932,345
Net effect of dilutive stock options - based on the treasury stock method using the quarter-end market price, if higher than average market price		162,179	135,565
		-----	-----
Total		14,853,221	15,067,910
		=====	=====
Earnings before income taxes and cumulative effect of change in accounting for income taxes		\$ 17,187,546	\$ 8,120,657
Income taxes		6,639,656	3,125,095
		-----	-----
Earnings before cumulative effect of accounting change		10,547,890	4,995,562
Cumulative effect as of June 30, 1992 of change in method of accounting for income taxes			
		-----	-----
Net earnings		\$ 10,547,890	\$ 4,995,562
		=====	=====
Earnings per share:			
Earnings before cumulative effect of accounting change		\$.71	\$.33
Cumulative effect of accounting change			
		-----	-----
Net earnings		\$.71	\$.33
		=====	=====

		Six Months Ended December 31	
		1993	1992
		-----	-----
		[C]	[C]
FULLY DILUTED			

Average shares outstanding		14,726,282	14,926,605
Net effect of dilutive stock options - based on the treasury stock method using the quarter-end market price, if higher than average market price		162,179	135,565
		-----	-----
Total		14,888,461	15,062,170
		=====	=====
Earnings before income taxes and cumulative effect of change in accounting for income taxes	\$	34,460,064	\$ 24,352,127
Income taxes		13,374,614	9,424,509
		-----	-----
Earnings before cumulative effect of accounting change		21,085,450	14,927,618
Cumulative effect as of June 30, 1992 of change in method of accounting for income taxes			-3,132,000
		-----	-----
Net earnings	\$	21,085,450	\$ 11,795,618
		=====	=====
Earnings per share:			
Earnings before cumulative effect of accounting change	\$	1.42	\$.99
Cumulative effect of accounting change			-.21
		-----	-----
Net earnings	\$	1.42	\$.78
		=====	=====

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WATTS INDUSTRIES, INC.

Date: February 7, 1994

By: _____

Kenneth J. McAvoy
Vice President of Finance
and Treasurer; Principal
Financial Officer

End of Filing

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