

WATTS WATER TECHNOLOGIES INC

FORM 10-K405

(Annual Report (Regulation S-K, item 405))

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the fiscal year ended June 30, 1998

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 of incorporation)

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: (978) 688-1811

Securities registered pursuant to Section 12(b) of the Act: CLASS A COMMON
STOCK, PAR VALUE \$.10 PER SHARE

Name of exchange on which registered: NEW YORK STOCK EXCHANGE

Securities registered pursuant to Section 12(g) of the Act: NONE

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Aggregate market value of the voting stock of the Registrant held by non-affiliates of the Registrant on August 20, 1998 was \$341,878,137.

As of August 20, 1998, 16,766,807 shares of Class A Common Stock, \$.10 par value, and 10,290,247 shares of Class B Common Stock, \$.10 par value, of the Registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders to be held on October 20, 1998, are incorporated by reference into

Part III of this Report.

PART I

ITEM 1. BUSINESS.

GENERAL

Watts Industries, Inc., (the "Company") designs, manufactures and sells an extensive line of valves for the plumbing and heating, water quality, industrial, and oil and gas industries. Watts has focused on the valve industry since its inception in 1874, when it was founded to design and produce steam regulators for New England textile mills. Today, the Company is a leading manufacturer and supplier of plumbing and heating and water quality valve products, which account for approximately 60% of its sales. The Company's growth strategy emphasizes internal development of new valve products and entry into new markets for specialized valves and related products through diversification of its existing business and strategic acquisitions in related business areas, both domestically and abroad. The Company was incorporated in Delaware in 1985.

The Company's product lines include safety relief valves, regulators, thermostatic mixing valves, ball valves and flow control valves for water service primarily in residential and commercial environments, and metal and plastic water supply/drainage products including valves, tubular brass products, faucets, drains, sink strainers, compression and flare fittings, and plastic tubing and braided metal hose connectors for residential construction and home repair and remodeling; backflow preventers for preventing contamination of potable water caused by reverse flow within water supply lines and fire protection equipment; corrosion resistant piping systems for laboratory drainage and high purity process installations; steam regulators and control devices for industrial, HVAC and naval/marine applications; pneumatic valve and motion switch products for medical, analytical, military and aerospace applications; ball valves, solenoid valves, cryogenic valves, pneumatic and electric actuators, relief valves, check valves, and butterfly valves for industrial applications; and needle valves, metering valves, plug valves, tube fittings, floating and trunnion ball valves, pipeline closures, specialty gate valves, oil field check valves, and large ball valves for the oil and gas, and chemical and petrochemical industries. Within a majority of the product lines the Company manufactures and markets, the Company believes that it has the broadest product line in terms of the distinct designs, sizes and configurations of its valves. Products representing a majority of the Company's sales have been approved under regulatory standards incorporated into state and municipal plumbing and heating, building and fire protection codes, and similar approvals from oil and gas industry standards agencies and from various agencies in the European market have been obtained. The Company has consistently advocated the development and enforcement of performance and safety standards, and is currently planning new investments and implementing additional procedures as part of its commitment to meet these standards. The Company maintains quality control and testing procedures at each of its manufacturing facilities in order to produce products in compliance with code requirements. Additionally, a majority of the Company's manufacturing subsidiaries have either acquired or are working to acquire ISO 9000, 9001 or 9002 certification from the International Organization for Standardization (ISO).

On September 10, 1997, a wholly owned subsidiary of the Company acquired the Orion Fittings Division of Kelstan Plastic Products, Ltd. ("Orion") located in Ontario, Canada. Orion manufactures corrosion resistant polyolefin piping systems, which include pipe, fittings, sinks, neutralizing tanks, pH alarm and monitoring systems and sediment interceptors, for laboratory drainage and high purity process installations. The sales of Orion for the twelve-month period ended August 31, 1997 were approximately \$584,000. On December 18, 1997, a wholly owned subsidiary of the Company acquired the pneumatic valve and motion switch product line of Aerodyne Controls Corp. ("Aerodyne") located in Ronkonkoma, New York. The Aerodyne product line consists of high quality valve components for medical, analytical, military, and aerospace applications, and sales of such product line for the twelve-month period ended October, 1997 were approximately \$7,000,000. On March 17, 1998, a wholly owned subsidiary of the Company acquired the solenoid valve product line of Atkomatic Valve Company ("Atkomatic") located in Indianapolis, Indiana. The Atkomatic product line consists of heavy duty process solenoid valves for clean air, gases, liquids, steam, corrosive and cryogenic fluids, and sales of such product line for the twelve-month period ended September 30, 1997 were \$4,500,000. On March 26, 1998, a wholly owned subsidiary of the Company acquired Telford Valve & Specialties, Inc. ("Telford") located in Edmonton, Alberta, Canada. Telford manufactures check valves, pipeline closures, and specialty gate valves that are used in industrial and oil and gas applications, and Telford is a distributor and authorized repair facility for several other independent manufacturers of oil-field products. Based on Telford's previous sales, Telford should provide approximately \$15,000,000 of incremental sales annually. On July 22, 1998, a wholly owned subsidiary of the Company acquired Hoke, Inc. ("Hoke") located in Cresskill, New Jersey. Hoke manufactures industrial valves and fittings, consisting of miniaturized pressure regulators, needle valves, metering valves, ball valves, plug valves and its line of Gyrollok(R) tube fittings for instrumentation applications, for the chemical and petrochemical, oil and gas, industrial, OEM, and analytical instrumentation markets. Hoke had sales of approximately \$70,000,000 for its fiscal year ended December 31, 1997. During fiscal 1998, the Company divested three international product line operations, which impacted sales by \$6,829,000.

The Company relies primarily on commissioned representative organizations, some of whom maintain a consigned inventory of the Company's products, to market its product lines. These organizations, which accounted for approximately 72% of the Company's net sales in the fiscal year ended June 30, 1998, sell primarily to plumbing and heating wholesalers, DIY Market accounts, and steam, industrial, oil and gas distributors for resale to end users in the United States and abroad. The Company sells metal and plastic water supply/drainage products including valves, tubular brass products, faucets, drains, sink strainers, compression and flare fittings, plastic tubing and braided metal hose connectors for the residential construction and home repair and remodeling industries through do-it-yourself plumbing retailers, national catalog distribution companies, hardware stores, building material outlets and retail home center chains ("DIY Markets") and through the Company's existing plumbing and heating wholesalers. The industrial product line is sold to domestic process industries through distributors and to aerospace and aircraft industries through special distributors and manufacturers' representatives, and the oil and gas product line is sold to domestic oil and gas industries through stocking supply stores and internationally through commissioned agents. The Company also sells products directly to certain large original equipment manufacturers (OEM's) and private label accounts. The Company also maintains direct and indirect sales channels for water valves, steam valves, relief valves, shut-off valves, check valves, butterfly valves, ball valves and flow meters to the power generation, maritime, heating, ventilation and air-conditioning, irrigation, fire protection, and refrigeration industries and utilities. The Company believes that sales to the residential construction and to the oil and gas markets may be subject to cyclical variations to a greater extent than its other targeted markets. During the second half of fiscal 1998, sales to the oil and gas markets declined due to the reduced cost of oil caused by lower demand in Asia for energy as a result of the economic crisis there and the unusually warm winter experienced in North America. However, because the Company sells into different geographic areas, and to large and diverse customers, the potential adverse effects from cyclical variations tend to be mitigated. No assurance can be given that the Company will be protected from a broad downturn in the

economy. There was no single customer which accounted for more than 10% of the Company's net sales in the fiscal year ended June 30, 1998.

The Company has a fully integrated and highly automated manufacturing capability including foundry operations, machining operations, injection molding and assembly. The Company's foundry operations include metal pouring systems and automatic core making, mold making and pouring capabilities. The Company's machining operations feature computer-controlled machine tools, high-speed chucking machines and automatic screw machines for machining bronze, brass, iron and steel components. The Company has invested heavily in recent years to expand its manufacturing base and to ensure the availability of the most efficient and productive equipment. The Company is committed to maintaining its manufacturing equipment at a level consistent with current technology in order to maintain high levels of quality and manufacturing efficiencies. As part of this commitment, the Company has spent a total of \$90,000,000 on capital expenditures over the last three fiscal years. The Company is budgeting \$29,000,000 for fiscal 1999 primarily for manufacturing facilities and equipment. See "Properties" below. The Company is also currently implementing an integrated enterprise-wide software system in most of its locations to make operations more efficient and to improve communications with suppliers and customers. Capital expenditures were \$29,170,000, \$29,742,000, and \$31,080,000 for fiscal 1998, 1997, and 1996, respectively. Depreciation and amortization for such periods were \$23,185,000, \$20,828,000, and \$21,574,000, respectively.

Five significant raw materials used in the Company's production processes are bronze ingot, brass rod, stainless steel, cast iron, and carbon steel. While the Company historically has not experienced significant difficulties in obtaining these commodities in quantities sufficient for its operations, there have been significant changes in their prices. The Company's gross profit margins are adversely affected to the extent that the selling prices of its products do not increase proportionately with increases in the costs of bronze ingot, brass rod, stainless steel, cast iron, and carbon steel. Any significant unanticipated increase or decrease in the prices of these commodities could materially affect the Company's results of operations. However, increased sales volume, an active materials management program, and the diversity of materials used in the Company's production processes have somewhat diminished the impact from changes in the cost of these five raw materials. No assurances can be given that such factors will protect the Company from future changes in the prices for such raw materials.

The domestic and international markets for valves are intensely competitive and include companies possessing greater financial, marketing and other resources than the Company. Management considers product reputation, price, effectiveness of distribution and breadth of product line to be the primary competitive factors. The Company believes that new product development and product engineering are also important to success in the valve industry and that the Company's position in the industry is attributable in significant part to its ability to develop new and innovative products quickly and to adapt and enhance existing products. During fiscal 1998, the Company continued to develop new and innovative products to enhance market position and is continuing to implement manufacturing and design programs to reduce costs. The Company employs over 100 engineers and technicians, which does not include engineers working in the Chinese joint ventures, who engage primarily in these activities. Although the Company owns certain patents and trademarks that it considers to be of importance, it does not believe that its business and competitiveness as a whole is dependent on any one or more patents or trademarks or on patent or trademark protection generally.

The Company's financial information by geographic area is contained in Note 15 of Notes to Consolidated Financial Statements incorporated herein by reference. From time to time, the Company's results of operations may be adversely affected by fluctuations in foreign exchange rates. Backlog was \$98,645,528 at August 14, 1998 and \$104,559,407 at August 15, 1997. The Company does not believe that its backlog at any point in time is indicative of future operating results. Available funds and funds provided from the Company's operations are sufficient to meet anticipated capital requirements. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations", below as it relates to the impact of foreign exchange rates and capital requirements.

As of June 30, 1998, the Company's domestic and foreign operations employed approximately 3,800 people, plus 900 employees in the Company's joint ventures located in the People's Republic of China. On July 22, 1998, the Company acquired Hoke, Inc. which added an additional 600 employees worldwide. There are approximately 295 employees that are covered by collective bargaining agreements in the United States and Canada. The Company believes that its employee relations are excellent.

EXECUTIVE OFFICERS

Information with respect to the executive officers of the Company is set forth below:

Name ----	Position -----	Age ---
TIMOTHY P. HORNE	Chairman of the Board, Chief Executive Officer and Director	60
DAVID A. BLOSS, SR	President, Chief Operating Officer and Director	48
KENNETH J. MCAVOY	Chief Financial Officer, Treasurer, Secretary and Director	58
ROBERT T. MCLAURIN	Corporate Vice President of Asian Operations	67
MICHAEL O. FIFER	GROUP VICE PRESIDENT	41

WILLIAM C. MCCARTNEY Vice President of Finance and Corporate Controller 44

SUZANNE M. ZABITCHUCK Corporate Counsel and Assistant Secretary 43

Timothy P. Horne joined the Company in September 1959 and has been a Director since 1962. Mr. Horne served as the Company's President from 1976 to 1978 and again from 1994 to April 1997. He has served as Chief Executive Officer since 1978 and he became the Company's Chairman of the Board in April 1986.

David A. Bloss, Sr., was appointed President and Chief Operating Officer in April, 1997. He joined the Company as Executive Vice President in July 1993 and has been a Director since January 1994. Prior to joining the Company, Mr. Bloss was for five years associated with the Norton Company, a manufacturer of abrasives and cutting tools, serving most recently as President of the Superabrasives Division.

Kenneth J. McAvoy joined the Company in 1981 as Corporate Controller. He served as the Company's Vice President of Finance from 1984 to 1994. He has been the Chief Financial Officer and Treasurer since June 1986, and has been a Director since January 1994. Mr. McAvoy served as Executive Vice President of European Operations from January 1994 to June 1996. Mr. McAvoy has also served as Secretary or Clerk since January 1985.

Robert T. McLaurin was appointed Corporate Vice President of Asian Operations in August 1994. He served as the Senior Vice President of Manufacturing of Watts Regulator Co. from 1983 to August 1994. He joined Watts Regulator Company as Vice President of Manufacturing in 1978.

Michael O. Fifer joined the Company in May 1994 and was appointed the Company's Vice President of Corporate Development, which title was recently changed to Group Vice President. Prior to joining the Company, Mr. Fifer was Associate Director of Corporate Development with Dynatech Corp., a diversified high-tech manufacturer, from 1991 to April 1994.

William C. McCartney joined the Company in 1985 as Controller. He was appointed the Company's Vice President of Finance in 1994, and he has been Corporate Controller of the Company since April 1988.

Suzanne M. Zabitchuck has been Corporate Counsel of the Company since joining the Company in December 1992. Ms. Zabitchuck was appointed Assistant Secretary in August 1993. Ms. Zabitchuck was associated with The Stride Rite Corporation, a shoe manufacturer, serving as its Associate General Counsel and Clerk immediately prior to joining the Company.

PRODUCT LIABILITY, ENVIRONMENTAL AND OTHER LITIGATION MATTERS

The Company, like other worldwide manufacturing companies, is subject to a variety of potential liabilities connected with its business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. The Company maintains product liability and other insurance coverage which it believes to be generally in accordance with industry practices. Nonetheless, such insurance coverage may not be adequate to protect the Company fully against substantial damage claims which may arise from product defects and failures.

Leslie Controls, Inc. and Spence Engineering Company, both subsidiaries of the Company, are involved as third-party defendants in various civil product liability actions pending in the U.S. District Court, Northern District of Ohio. The underlying claims have been filed by present or former employees of various shipping companies for personal injuries allegedly received as a result of exposure to asbestos. The shipping companies contend that they installed in their vessels certain valves manufactured by Leslie Controls and/or Spence Engineering which contained asbestos. Leslie Controls is also a defendant in two similar matters pending in Superior Court of California, San Francisco County. The Company has resort to certain insurance coverage with respect to these matters. Coverage has been disputed by certain of the carriers and, therefore, recovery is questionable, a factor which the Company has considered in its evaluation of these matters. The Company has established certain reserves which it currently believes are adequate in light of the probable and estimable exposure of pending and threatened litigation of which it has knowledge. Based on facts presently known to it, the Company does not believe the outcome of these proceedings will have a material adverse effect on its financial condition, results of operations or its liquidity.

Certain of the Company's operations generate solid and hazardous wastes, which are disposed of elsewhere by arrangement with the owners or operators of disposal sites or with transporters of such waste. The Company's foundry and other operations are subject to various federal, state and local laws and regulations relating to environmental quality. Compliance with these laws and regulations requires the Company to incur expenses and monitor its operations on an ongoing basis. The Company cannot predict the effect of future requirements on its capital expenditures, earnings or competitive position due to any changes in federal, state or local environmental laws, regulations or ordinances.

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 ("PRPs"). Three of these sites, the Sharkey and Combe Landfills in New Jersey, and the San Gabriel Valley/El Monte, California water basin site, 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. No allocations have been made to date with respect to the Combe Landfill or San Gabriel Valley sites. The EPA has formally notified several entities that they have been identified as being potentially responsible parties with respect to the San Gabriel Valley site. As the Company was not included in this group, its potential involvement in this matter is uncertain at

this point given that either the PRPs named to date or the EPA could seek to expand the list of potentially responsible parties. In addition to the foregoing, the Solvent Recovery Service of New England site and the Old Southington landfill site, both in Connecticut, are on the National Priorities List, but, with respect thereto, the Company has resort to indemnification from third parties and based on currently available information, the Company believes it will be entitled to participate in a de minimis capacity.

During the quarter ending March 31, 1998, the Company received an administrative order from the New Hampshire Department of Environmental Services with respect to certain regulatory issues concerning its Franklin, New Hampshire operation. The Company has appealed this administrative order. The state agency has not as of yet issued any fines or penalties in connection with this matter.

With respect to the Combe Landfill, the Company is one of approximately 30 potentially responsible parties. The Company and all other PRPs received a Supplemental Directive from the New Jersey Department of Environmental Protection & Energy in 1994 seeking to recover approximately \$9 million in the aggregate for the operation, maintenance, and monitoring of the implemented remedial action taken up to that time in connection with the Combe Landfill North site. Certain of the PRPs, including the Company, are currently negotiating with the state. The Company and certain of the remaining PRPs have recently entered into a Consent Order with the U.S. Environmental Protection Agency to settle the federal exposure for this site in return for a non-material payment. Based on facts presently known to it, the Company does not believe that the outcome of these environmental 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 probable and estimable exposure of pending and threatened environmental litigation and proceedings of which it has knowledge. 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 which may be material to the Company.

On June 25, 1997, a complaint entitled State of California ex rel. Nora Armenta v. James Jones Company, Mueller Co., Tyco International, Ltd. and Watts Industries, Inc. was filed under seal in the Superior Court of Los Angeles County, California, alleging violations of the California False Claims Act. The Company became aware of the action in April 1998. The complaint alleges that since at least 1987, James Jones Company, (which was a subsidiary of the Company until September 1996 when it was sold to Tyco International, Ltd.), sold products utilized in municipal water systems within the State of California which failed to meet contractually specified industry standards and falsely certified that such standards had been met. The complaint alleges that the municipal entities have suffered tens of millions of dollars of damages as a result of the defective products, and seeks injunctive relief, treble damages, civil penalties of up to \$10,000 for each violation of the California False Claims Act, costs and attorney's fees. The action was filed by a former employee of James Jones Company, and no government entity is currently a party by intervention in the action. The parties are currently engaging in discovery. The Company intends to vigorously defend the action.

ITEM 2. PROPERTIES.

The Company maintains 43 facilities worldwide. The manufacturing operations include four casting foundries, two of which are located in the United States, one in Europe and one at Tianjin Tanggu Watts Valve Company Limited ("Tanggu Watts"), a joint venture located in the People's Republic of China. Castings from these foundries and other components are machined and assembled into finished valves at 26 manufacturing facilities located in the United States, Canada, and Europe, excluding joint ventures. Many of these facilities contain sales offices or warehouses from which the Company ships finished goods to customers and commissioned representative organizations. The Company's corporate headquarters are located in North Andover, Massachusetts. The vast majority of the Company's operating facilities and the related real estate are owned by the Company. The buildings and land located in (i) Cresskill, New Jersey and Southington, Connecticut; (ii) Nerviano, Italy and (iii) Tianjin, People's Republic of China and the land located in (iv) Suzhou, People's Republic of China, are leased by Hoke, Pibiviesse S.p.A. ("PBVS"), Tanggu Watts, and Suzhou Watts Valve Co., Ltd. ("Suzhou Watts") respectively, under lease agreements, the terms of which are 3 years, 6 years, 30 years, and 30 years, respectively. During fiscal 1998 the Company relocated two plants of Watts Industries (Canada) Ltd. into its recently expanded facility in Burlington, Ontario. Certain of the Company's facilities are subject to mortgages and collateral assignments under loan agreements with long-term lenders. In general, the Company believes that its properties, including machinery, tools and equipment, are in good condition, well maintained and adequate and suitable for their intended uses. The Company believes that the manufacturing facilities are currently operating at a level that management considers normal capacity. This utilization is subject to change as a result of increases or decreases in sales.

ITEM 3. LEGAL PROCEEDINGS.

ITEM 3(a). The Company is from time to time involved in various legal and administrative procedures. See Part I, Item 1, "Product Liability, Environmental and Other Litigation Matters".

ITEM 3(b). None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

There were no matters submitted during the fourth quarter of the fiscal year covered by this Report to a vote of security holders through solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED

STOCKHOLDER MATTERS.

MARKET INFORMATION

The following tabulation sets forth the high and low sales prices of the Company's Class A Common Stock on the New York Stock Exchange during fiscal 1998 and fiscal 1997 and cash dividends paid per share:

	High 1998	Low	Dividend	High 1997	Low	Dividend
First Quarter	\$27 3/4	\$22 5/8	\$.0775	\$19 7/8	\$15 1/2	\$.07
Second Quarter	28 11/16	24 1/2	.0775	24 1/4	19	.07
Third Quarter	31 3/8	26 1/16	.0875	26 3/8	23	.0775
Fourth Quarter	30 15/16	20 7/8	.0875	26 1/2	21 1/4	.0775

There is no established public trading market for the Class B Common Stock of the Company, which is held exclusively by members of the Horne family and management. The principal holders of such stock are subject to restrictions on transfer with respect to their shares. Each share of Class B Common Stock (10 votes per share) of the Company is convertible into one share of Class A Common Stock (1 vote per share). Aggregate common stock dividend payments for fiscal 1998, 1997, and 1996, were \$8,936,000, \$7,992,000, and \$7,793,000, respectively. While the Company presently intends to continue to pay cash dividends, payment of future dividends necessarily depends upon the Board of Directors' assessment of the Company's earnings, financial condition, capital requirements and other factors. See Note 8 of Notes to Consolidated Financial Statements incorporated herein by reference regarding restrictions on payment of dividends.

The number of record holders of the Company's Class A Common Stock as of August 20, 1998 was 207. The Company believes that the number of beneficial shareholders of the Company's Class A Common Stock was approximately 6,000 as of August 20, 1998. The number of record holders of the Company's Class B Common Stock as of August 20, 1998 was 17.

ITEM 6. SELECTED FINANCIAL DATA.

The selected financial data set forth below should be read in conjunction with the Company's consolidated financial statements, related Notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein.

FIVE YEAR FINANCIAL SUMMARY

(Amounts in thousands, except per share information)

	1998	1997	1996(1)	1995	1994
Selected Data					
Net sales from continuing operations	\$ 729,966	\$ 720,340	\$ 640,876	\$ 576,851	\$ 444,484
Income (loss) from continuing operations	53,369	48,460	(53,765)	42,463	39,400
Net income (loss)	53,369	51,747	(50,285)	45,738	41,010
Total assets	665,820	622,083	656,294	676,394	546,722
Total debt	117,076	128,359	163,150	144,240	98,244
Income (loss) per share from continuing operations-diluted	1.95	1.77	(1.83)	1.43	1.33
Net income (loss) per share-diluted	1.95	1.89	(1.71)	1.54	1.38
Dividends per common share	0.33	0.295	0.265	0.235	0.20

(1) Fiscal 1996 includes an after-tax charge of \$92,986,000 related to: restructuring costs of \$25,415,000; an impairment of long-lived assets of \$63,065,000; other charges of \$13,753,000 principally for product liability costs, additional bad debt reserves and environmental remediation costs; and additional inventory valuation reserves of \$9,508,000.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED JUNE 30, 1998 COMPARED TO FISCAL YEAR ENDED JUNE 30, 1997

Net sales from continuing operations increased \$9,626,000 (1.3%) to \$729,966,000. An analysis of this change in net sales is as follows:

	1998 - 1997 (in thousands)
Internal Growth	\$ 14,673 2.0%

Acquisitions/New Joint Ventures	30,097	4.2%
Divestitures	(20,244)	(2.8%)
Foreign Exchange Rate Effect	(14,900)	(2.1%)
	-----	-----
Total Increase	\$ 9,626	1.3%
	=====	=====

The increase in net sales from internal growth is primarily attributable to increased unit shipments of domestic plumbing and heating valves and European oil and gas valves. The increased sales due to acquisitions is primarily attributable to the inclusion for a full year of the net sales of Ames Company, Inc. ("Ames") of Woodland, CA acquired in January 1997 and the net sales of Telford Valve and Specialties, Inc. ("Telford") of Edmonton, Alberta, Canada acquired in March 1998. Fiscal 1997 sales included \$13,415,000 for certain product lines of the Jameco business, imported vitreous china and faucets, in which the Company now only owns a 49% minority interest, thereby eliminating these sales from current year results. The Company also divested three international product lines which impacted fiscal 1998 sales by \$6,829,000. The unfavorable effect that changes in foreign exchange rates had on the sales was primarily attributable to the Company's European operations. The Company intends to maintain its strategy of seeking acquisition opportunities as well as expanding its existing market position to achieve sales growth.

Gross profit from continuing operations increased \$8,944,000 (3.6%) and increased as a percentage of net sales from 34.1% to 34.8%. This percentage increase is primarily attributable to improved gross margins for European oil and gas valves and domestic plumbing and heating valves and the full-year inclusion of Ames which operates at a higher gross margin than the Company average. These improvements were partially offset by manufacturing inefficiencies associated with the relocation of the Jameco product line into a Watts Regulator factory in Spindale, North Carolina.

Selling, general and administrative expenses increased \$4,776,000 (3.0%) to \$163,760,000. This increase is primarily attributable to the inclusion of the expenses of acquired companies and increased variable selling expenses. This increase was partially offset by the effect of the change in foreign exchange rates.

Other non-operating expense decreased by \$353,000 (32.0%) to \$738,000. This decrease is primarily attributable to the inclusion of gains recognized on the sale of a Canadian manufacturing facility and a small Italian valve manufacturing division.

The Company's effective tax rate for continuing operations decreased from 35.9% for fiscal 1997 to 34.2% for fiscal 1998 primarily due to the implementation of tax planning strategies and utilization of net operating loss carry forwards.

Income from continuing operations increased \$4,909,000 (10.1%) to \$53,369,000. The Company's return on average stockholders' investment was 15.1% for fiscal 1998 compared to 14.8% in fiscal 1997.

The Company's consolidated results of operations are impacted by the effect that changes in foreign currency exchange rates have on its international subsidiaries' operating results. Changes in foreign exchange rates had an adverse effect on income from continuing operations for fiscal 1998 of approximately \$1,500,000.

In the quarter ended September 30, 1996 the Company sold its Municipal Water Group of companies. This divestiture resulted in an after-tax gain of \$3,208,000, or \$.12 per share on both a basic and diluted basis for the year ended June 30, 1997.

RESULTS OF OPERATIONS

FISCAL YEAR ENDED JUNE 30, 1997 COMPARED TO

FISCAL YEAR ENDED JUNE 30, 1996

Net sales from continuing operations increased \$79,464,000 (12.4%) to \$720,340,000. An analysis of this increase in net sales is as follows:

		1997 - 1996 (in thousands)
Internal Growth	\$68,553	10.7%
Acquisitions	18,948	3.0%
Foreign Exchange Rate Effect	(8,037)	(1.3%)
	-----	-----
Total Increase	\$79,464	12.4%
	=====	=====

The increase in net sales from internal growth was primarily attributable to increased unit shipments of oil and gas valves and plumbing and heating valves. The increased unit shipments of oil and gas valves was supported by a strong worldwide oil and gas market. The increased unit shipments of plumbing and heating valves was primarily associated with increased demand from plumbing and heating wholesalers and increased penetration into the home repair retail market (DIY). The increased sales due to acquisitions was primarily attributable to the acquisition of Ames Company, Inc. in January 1997.

Gross profit from continuing operations increased \$33,194,000 (15.6%). Excluding \$9,508,000 of inventory write-downs recorded in cost of sales during the prior fiscal year, gross profit would have increased \$23,686,000 (10.7%) to \$245,392,000 and decreased as a percentage of net

sales from 34.6% to 34.1%. The gross profit percentage was primarily, among other things, adversely affected by decreased absorption of fixed expenses that occurred because the Company reduced production levels to achieve inventory reductions. The decreased absorption was partially offset by improved gross margins for oil and gas valves due to increased sales volumes and factory efficiencies.

Selling, general and administrative expenses in the year ended June 30, 1996 include a \$13,753,000 charge for product liability costs, environmental remediation and additional bad debt reserves. Selling, general and administrative expenses excluding this charge increased \$9,786,000 (6.6%) to \$158,984,000 and decreased as a percentage of net sales from 23.3% to 22.1%. The increase in spending is primarily attributable to increased commissions and variable selling expenses associated with the increased sales and the inclusion of the expenses of acquired companies.

The Company's effective tax rate was favorably effected in fiscal 1997 by tax planning strategies and utilization of foreign net operating loss carry forwards. During fiscal 1996, the Company's effective tax rate was unfavorably effected by the substantially non-deductible nature of the long-lived asset impairment loss.

Earnings from continuing operations increased by \$102,225,000 when compared to fiscal 1996, and by \$9,239,000 (23.6%) when the \$92,986,000 after-tax effect of the charges recorded for long-lived asset impairment, restructuring, inventory write-downs, and product liability costs, environmental remediation and additional bad debt reserves are excluded. The Company's return on average stockholders' investment, excluding the gain on the sale of the Municipal Water Group, was 14.8% for fiscal 1997 compared to 9.6% in fiscal 1996 (as adjusted to exclude the 1996 items described above).

The Company experienced an unfavorable impact due to the change in foreign exchange rates since June 30, 1996. This change did not have a material adverse impact on the results of operations or the financial condition of the Company.

LIQUIDITY AND CAPITAL RESOURCES

During fiscal 1998, the Company generated \$62,784,000 in cash flow from operations, which was principally used to fund capital expenditures of \$29,170,000 and to finance acquisitions. These capital expenditures were primarily for manufacturing machinery and equipment as part of the Company's commitment to continuously improve its manufacturing capabilities. The Company's capital expenditure budget for fiscal 1999 is \$29,000,000.

On December 18, 1997, the Company acquired Aerodyne Controls Corporation ("Aerodyne") located in Ronkonkoma, New York. Aerodyne is a manufacturer of pneumatic valve and motion switches. Aerodyne's sales for the twelve months ended October 1997 were approximately \$7,000,000. Customers are primarily in the medical, analytical, military, and aerospace markets.

On March 26, 1998, the Company acquired Telford located in Edmonton, Alberta, Canada. Telford manufactures check valves, pipe line closures and specialty gate valves that are used in industrial and oil and gas applications. Telford is also a distributor and authorized repair facility for a number of other independent manufacturers of oil-field products. Based on Telford's previous sales, Telford should provide approximately \$15,000,000 of incremental sales.

The aggregate purchase price for the acquisitions of Aerodyne, Telford, and other product line acquisitions during fiscal 1998 was \$23,632,000.

During fiscal 1998, the Company sold one of its facilities in Canada consolidating the operations into another existing Canadian plant. Additionally, the Company sold a small Italian valve manufacturing division which was not part of the Company's core business. The proceeds from these transactions totalled \$7,135,000.

On July 22, 1998, the Company acquired Hoke, Inc. ("Hoke"), headquartered in Cresskill, New Jersey. Hoke manufactures and distributes industrial valves and fittings consisting of miniaturized pressure regulators, needle valves, metering valves, ball valves, plug valves, and also its well-known line of Gyrolok(R) tube fittings for instrumentation applications. Hoke's annual sales for its fiscal year ended December 31, 1997 were approximately \$70,000,000 and it sells its products primarily to the chemical, petrochemical, oil and gas, industrial, OEM, and analytical instrumentation markets. The purchase price, including the assumption of certain debt, was approximately \$85,000,000 and was funded using the Company's line of credit facility.

The Company has available an unsecured \$125,000,000 line of credit which expires on March 27, 2003. The Company intends to utilize this credit facility to support the Company's acquisition program, working capital requirements of acquired companies, and for general corporate purposes. As of June 30, 1998 and August 20, 1998, there was \$19,000,000 and \$81,000,000, respectively, borrowed under this line of credit. The net increase in the outstanding line of credit is primarily due to the acquisition of Hoke.

Working capital at June 30, 1998 was \$237,373,000 compared to \$224,702,000 at June 30, 1997. The ratio of current assets to current liabilities was 2.8 to 1 at June 30, 1998 compared to 2.9 to 1 at June 30, 1997. Cash and short-term investments were \$10,714,000 at June 30, 1998 compared to \$14,422,000 at June 30, 1997. Debt as a percentage of total capital employed was 23.8% at June 30, 1998 compared to 27.8% at June 30, 1997 and approximately 32.7% at August 21, 1998. At June 30, 1998 the Company was in compliance with all covenants related to its existing debt.

The Company from time to time is involved with product liability, environmental and other litigation proceedings and incurs costs on an on-going basis related to these matters. The Company did not incur significant expenditures in fiscal 1998 in connection with any of these matters. See Part 1, Item 1, "Product Liability, Environmental and Other Litigation Matters".

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.

The Company has developed a comprehensive global plan to assess and address in a timely manner its information systems including customer service, production, distribution, and financial systems in conjunction with the year 2000. A significant portion of the Company's year 2000 issues are being addressed as part of its program to upgrade its information systems which the Company had committed to regardless of the year 2000 issue. This program commenced in fiscal 1997 and should be substantially complete by the end of fiscal 1999. The Company has spent approximately \$8,100,000 on computer hardware and software for this information systems upgrade program and expects to spend approximately \$1,600,000 on additional similar costs to complete the upgrade. If it becomes necessary to dedicate additional financial and other resources to complete the Company's information systems upgrade program by the end of fiscal year 1999, or shortly thereafter, the Company will do so.

The Company is also communicating with its suppliers, distributors, and others with whom it conducts business to coordinate year 2000 compliance and to identify alternative sources of supply for its materials. The implementation of these plans is not expected to have a material adverse effect on the results of operations or the financial condition of the Company. The Company presently believes alternative sources of supply will be available in the event of unforeseen year 2000 compliance issues that affect suppliers' abilities to fulfill requirements. If production and other plans need to be modified because of unforeseen year 2000 issues at distributors and others with whom the Company conducts business, the Company will do so when the need for such modification becomes apparent.

If the Company or its suppliers, distributors or others with whom it conducts business are unable to identify and address the system issues related to the year 2000 risk on a timely basis, there could be a material adverse effect on its results of operations and financial condition.

The Company uses foreign currency forward exchange contracts to reduce the impact of currency fluctuations on certain intercompany purchase transactions that will occur within the fiscal year and other known foreign currency exposures. The notional amount of such contracts and the related realized and unrealized gains and losses as of June 30, 1998 are not material.

Certain statements contained herein are forward looking. Many factors could cause actual results to differ from these statements, including loss of market share through competition; introduction of competing products by other companies; pressure on prices from competitors, suppliers, and/or customers; regulatory obstacles; lack of acceptance of new products; changes in the plumbing and heating and oil and gas markets; changes in global demand for the Company's products; changes in distribution of the Company's products; interest rates; foreign exchange fluctuations; cyclicity of industries in which the Company markets certain of its products and general and economic factors in markets where the Company's products are sold, manufactured or marketed; and other factors discussed in the Company's reports filed with the Securities and Exchange Commission.

Statement of Financial Accounting Standard ("SFAS") No. 130, Reporting Comprehensive Income, SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, and SFAS No. 132, Employer's Disclosures about Pensions and Other Post-Retirement Benefits, become effective during fiscal year 1999 and will be adopted at that time. Since these new standards require only additional disclosure, adoption will have no effect on the Company's results of operations or financial condition.

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, becomes effective in fiscal year 2000. This new standard will require the Company to recognize all derivative instruments as either assets or liabilities, at fair value, in its consolidated balance sheet. The Company is currently evaluating the effect of this new standard.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company uses derivative financial instruments primarily to reduce exposure to adverse fluctuations in foreign exchange rates. The Company does not enter into derivative financial instruments for trading purposes. As a matter of policy all derivative positions are used to reduce risk by hedging underlying economic exposure. The derivatives the Company uses are straightforward instruments with liquid markets.

The Company manages most of its foreign currency exposures on a consolidated basis. The Company identifies all of its known exposures. As part of that process, all natural hedges are identified. The Company then nets these natural hedges from its gross exposures.

The Company's consolidated earnings are subject to fluctuations due to changes in foreign currency exchange rates. However, its overall exposure to such fluctuations is reduced by the diversity of its foreign operating locations which encompass a number of different European locations, Canada, and China.

The Company's foreign subsidiaries transact most business, including certain intercompany transactions, in foreign currencies. Such transactions are principally material purchases or sales and are denominated in European currencies or the U.S. or Canadian dollar. The Company uses foreign currency forward exchange contracts to manage the risk related to intercompany purchases that occur during the course of a fiscal year and certain open foreign currency denominated commitments to sell products to third parties. At June 30, 1998 and 1997, there

were no significant amounts of open foreign currency forward exchange contracts or related unrealized gains or losses.

Watts has historically had a very low exposure to changes in interest rates. Additionally, the Company historically has strong cash flows, and any amounts of variable rate debt could be paid down through cash generated from operations. At June 30, 1998, the Company was primarily exposed to the Eurodollar interest rate on the outstanding borrowings under its line of credit facility. Information about the Company's long-term debt including principal amounts and related interest rates appears in Note 8 to the consolidated financial statements included herein.

The Company purchases significant amounts of bronze ingot, brass rod, stainless steel, cast iron, and carbon steel which are utilized in manufacturing its many product lines. The Company's operating results can be adversely affected by changes in commodity prices if it is unable to pass on related price increases to its customers. The Company manages this risk by monitoring related market prices, working with its suppliers to achieve the maximum level of stability in their costs and related pricing, seeking alternative supply sources when necessary and passing increases in commodity costs to its customers, to the maximum extent possible, when they occur. The Company does not use derivative financial instruments to manage this risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The index to financial statements is included in page 14 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS

The information appearing under the caption "Information as to Nominees for Director" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on October 20, 1998 is incorporated herein by reference. With respect to Directors and Executive Officers, the information appearing under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on October 20, 1998 is incorporated herein by reference.

EXECUTIVE OFFICERS

Information with respect to the executive officers of the Company is set forth in Item 1 of this Report under the caption "Executive Officers".

ITEM 11. EXECUTIVE COMPENSATION.

The information appearing under the caption "Compensation Arrangements" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on October 20, 1998 is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information appearing under the caption "Principal and Management Stockholders" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on October 20, 1998 is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information appearing under the caption "Compensation Arrangements-Certain Transactions" in the Registrant's Proxy Statement relating to the Annual Meeting of Stockholders to be held on October 20, 1998 is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a)(1) FINANCIAL STATEMENTS

The following financial statements are included in a separate section of this Report commencing on the page numbers specified below:

Consolidated Statements of Operations for each of the Three Years in the Period Ended June 30, 1998	20
Consolidated Balance Sheets as of June 30, 1998 and 1997	21
Consolidated Statements of Stockholders' Equity for each of the Three Years in the Period Ended June 30, 1998	22
Consolidated Statements of Cash Flows for each of the Three Years in the Period Ended June 30, 1998	23
Notes to Consolidated Financial Statements	24
(a)(2) SCHEDULES	
Schedule II - Valuation and Qualifying Accounts for each of the Three Years in the Period Ended June 30, 1998	36

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a)(3) EXHIBITS

Exhibits 10.1-10.6, 10.8, 10.22, and 10.29 constitute all of the management contracts and compensation plans and arrangements of the Company required to be filed as exhibits to this Annual Report. Upon written request of any stockholder to the Chief Financial Officer at the Company's principal executive office, the Company will provide any of the Exhibits listed below.

Exhibit No.	Description and Location
3.1	Restated Certificate of Incorporation, as amended. (12)
3.2	Amended and Restated By-Laws. (1)
9.1	Horne Family Voting Trust Agreement-1991 dated as of October 31, 1991 (2), Amendments dated November 19, 1996 (18), February 24, 1997 (18), June 5, 1997 (18), August 26, 1997 (18), and October 17, 1997*.
9.2	The George B. Horne Voting Trust Agreement-1997 dated as of August 26, 1997 (18), Amendments dated October 30, 1997*, July 31, 1998*, and August 31, 1998*.
10.1	Employment Agreement effective as of September 1, 1996 between the Registrant and Timothy P. Horne. (14)
10.2	Supplemental Compensation Agreement effective as of September 1, 1996 between the Registrant and Timothy P. Horne. (14)
10.3	Deferred Compensation Agreement between the Registrant and Timothy P. Horne, as amended. (4)
10.4	1996 Stock Option Plan, dated October 15, 1996. (15)
10.5	1989 Nonqualified Stock Option Plan. (3)
10.6	Watts Industries, Inc. Retirement Plan for Salaried Employees dated December 30, 1994, as amended and restated effective as of January 1, 1994, (12), Amendment No. 1 (14), Amendment No. 2 (14), Amendment No. 3 (14), Amendment No. 4 dated September 4, 1996. (18)
10.7	Registration Rights Agreement dated July 25, 1986. (5)
10.8	Executive Incentive Bonus Plan, as amended. (12)
10.9	Indenture dated as of December 1, 1991 between the Registrant and The First National Bank of Boston, as Trustee, including form of 8-3/8% Note Due 2003. (8)
10.10	Loan Agreement and Mortgage among The Industrial Development Authority of the State of New Hampshire, Watts Regulator Co. and Arlington Trust Company dated August 1, 1985. (4)
10.11	Amendment Agreement relating to Watts Regulator Co. (Canaan and Franklin, New Hampshire, facilities) financing dated December 31, 1985. (4)
10.12	Sale Agreement between Village of Walden Industrial Development Agency and Spence Engineering Company, Inc. dated June 1, 1994. (11)
10.13	Letter of Credit, Reimbursement and Guaranty Agreement dated June 1, 1994 by and among the Registrant, Spence Engineering Company, Inc. and First Union National Bank of North Carolina. (11), Amendment No. 1 (14), Amendment No. 2 dated October 1, 1996. (18)
10.14	Trust Indenture from Village of Walden Industrial Development Agency to The First National Bank of Boston, as Trustee, dated June 1, 1994. (11)
10.15	Loan Agreement between Hillsborough County Industrial Development Authority and Leslie Controls, Inc. dated July 1, 1994. (11)
10.16	Letter of Credit, Reimbursement and Guaranty Agreement dated July 1, 1994 by and among the Registrant, Leslie Controls, Inc. and First Union National Bank of North Carolina (11), Amendment No. 1 (14), Amendment No. 2 dated October 1, 1996. (18)
10.17	Trust Indenture from Hillsborough County Industrial Development Authority to The First National Bank of Boston, as Trustee, dated July 1, 1994. (11)
10.18	Loan Agreement between The Rutherford County Industrial Facilities and Pollution Control Financing Authority and Watts Regulator Company dated September 1, 1994. (12)
10.19	Letter of Credit, Reimbursement and Guaranty Agreement dated September 1, 1994 by and among the Registrant, Watts Regulator Company and The First Union National Bank of North Carolina (12), Amendment No. 1 (14), Amendment No. 2 dated October 1, 1996. (18)
10.20	Trust Indenture from The Rutherford County Industrial Facilities and Pollution Control Financing Authority to The First National Bank of Boston, as Trustee, dated September 1, 1994. (12)

- 10.21 Amended and Restated Stock Restriction Agreement dated October 30, 1991 (2), Amendment dated August 26, 1997. (18)
- 10.22 Watts Industries, Inc. 1991 Non-Employee Directors' Nonqualified Stock Option Plan (7), Amendment No. 1. (14)
- 10.23 Letters of Credit relating to retrospective paid loss insurance programs. (10)
- 10.24 Form of Stock Restriction Agreement for management stockholders. (5)
- 10.25 Revolving Credit Agreement dated December 23, 1987 between Nederlandse Creditbank NV and Watts Regulator (Nederland) B.V. and related Guaranty of Watts Industries, Inc. and Watts Regulator Co. dated December 14, 1987. (6)
- 10.26 Loan Agreement dated September 1987 with, and related Mortgage to, N.V. Sallandsche Bank. (6)
- 10.27 Agreement of the sale of shares of Intermed, S.p.A., RIAF Holding A.G. and the participations in Multiscope Due S.R.L. dated November 6, 1992. (9)
- 10.28 Amended and Restated Revolving Credit Agreement dated March 27, 1998 between and among Watts Investment Company, certain financial institutions, BankBoston N.A., as Administrative Agent, and the Registrant, as Guarantor. (17)
- 10.29 Watts Industries, Inc. Management Stock Purchase Plan dated October 17, 1995 (13), Amendment No. 1 dated August 5, 1997. (18)
- 10.30 Stock Purchase Agreement dated as of June 19, 1996 by and among Mueller Co., Tyco Valves Limited, Watts Investment Company, Tyco International Ltd. and Watts Industries, Inc. (16)
- 11 Statement Regarding Computation of Earnings per Common Share. (19)
- 21 Subsidiaries. *
- 23.1 Consent of KPMG Peat Marwick LLP. *
- 23.2 Consent of Ernst & Young LLP, Independent Auditors, predecessor auditors.*
- 23.3 Consent of Deloitte & Touche, Independent Auditors, predecessor auditors.*
- 27 Financial Data Schedule-Fiscal 1998. *
- 27.1 Financial Data Schedule-Fiscal 1997 Restated. *

Incorporated By Reference To:

- (1) Relevant exhibit to Registrant's Form 8-K dated May 15, 1992.
- (2) Relevant exhibit to Registrant's Form 8-K dated November 14, 1991.
- (3) Relevant exhibit to Registrant's Form 10-K for the year ended June 30, 1989.
- (4) Relevant exhibit to Registrant's Form S-1 (No. 33-6515) dated June 17, 1986.
- (5) Relevant exhibit to Registrant's Form S-1 (No. 33-6515) as part of the Second Amendment to such Form S-1 dated August 21, 1986.
- (6) Relevant exhibit to Registrant's Form S-1 (No. 33-27101) dated February 16, 1989.
- (7) Relevant exhibit to Registrant's Amendment No.1 to Form 10-K for year ended June 30, 1992.
- (8) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1992.
- (9) Relevant exhibit to Registrant's Amendment No. 2 dated February 22, 1993 to Form 8-K dated November 6, 1992.
- (10) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1993.
- (11) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1994.
- (12) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1995.
- (13) Relevant exhibit to Registrant's Form S-8 (No. 33-64627) dated November 29, 1995.
- (14) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1996.
- (15) Relevant exhibit to Registrant's Form S-8 (No. 333-32685) dated August 1, 1997.
- (16) Relevant exhibit to Registrant's Form 8-K dated September 4, 1996.
- (17) Relevant exhibit to Registrant's Form 10-Q for quarter ended March 31, 1998.
- (18) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1997.
- (19) Notes to Consolidated Financial Statements, Note 10, of this Report.

* Filed as an exhibit to this Report with the Securities and Exchange Commission

(b) REPORTS ON FORM 8-K.

The Registrant did not file any reports on Form 8-K during the fourth quarter of the period covered by this Annual Report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /S/ TIMOTHY P. HORNE

 TIMOTHY P. HORNE
 CHAIRMAN OF THE BOARD AND
 CHIEF EXECUTIVE OFFICER

DATED: September 10, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<i>Signature</i>	<i>Title</i>	<i>Date</i>
<i>/S/ TIMOTHY P. HORNE</i> ----- <i>Timothy P. Horne</i>	<i>Chairman of the Board and</i> <i>Chief Executive Officer</i> <i>(Principal Executive</i> <i>Officer) and Director</i>	<i>September 10, 1998</i>
<i>/S/ KENNETH J. MCAVOY</i> ----- <i>Kenneth J. McAvoy</i>	<i>Chief Financial Officer</i> <i>and Treasurer (Principal</i>	<i>September 10, 1998</i>

Financial and Accounting Officer), Secretary, and Director

<i>/S/ DAVID A. BLOSS, SR.</i> ----- <i>David A. Bloss, Sr.</i>	<i>President and Chief Operating</i> <i>Officer, and Director</i>	<i>September 10, 1998</i>
<i>/S/ NOAH T. HERNDON</i> ----- <i>Noah T. Herndon</i>	<i>Director</i>	<i>September 10, 1998</i>
<i>/S/ WENDY E. LANE</i> ----- <i>Wendy E. Lane</i>	<i>Director</i>	<i>September 10, 1998</i>
<i>/S/ GORDON W. MORAN</i> ----- <i>Gordon W. Moran</i>	<i>Director</i>	<i>September 10, 1998</i>
<i>/S/ DANIEL J. MURPHY, III</i> ----- <i>Daniel J. Murphy, III</i>	<i>Director</i>	<i>September 10, 1998</i>

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Watts Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Watts Industries, Inc. and subsidiaries as of June 30, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years then ended. In connection with our audits of the consolidated financial statements, we also audited the accompanying financial statement schedules of valuation and qualifying accounts as of and for the years ended June 30, 1998 and 1997. These consolidated financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits. The accompanying consolidated financial statements of Watts Industries, Inc. and subsidiaries for the year ended June 30, 1996 and schedule of valuation and qualifying accounts as of and for the year ended June 30, 1996 were audited by other auditors whose report thereon dated August 6, 1996, expressed an unqualified opinion.

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 provide a reasonable basis for our opinion.

In our opinion, the 1998 and 1997 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watts Industries, Inc. and subsidiaries as of June 30, 1998 and 1997, and the results of their operations and their cash flows for the each of the years then ended in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

August 5, 1998
Boston, Massachusetts

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE INFORMATION)

	Fiscal Year Ended June 30		
	1998	1997	1996
Net sales	\$ 729,966	\$ 720,340	\$ 640,876
Cost of goods sold	475,630	474,948	428,678
GROSS PROFIT	254,336	245,392	212,198
Selling, general and administrative expenses	163,760	158,984	162,951
Impairment of long-lived assets	--	--	63,065
Restructuring charge	--	--	25,415
OPERATING INCOME (LOSS)	90,576	86,408	(39,233)
Other (income) expense:			
Interest income	(1,655)	(763)	(702)
Interest expense	10,412	10,493	9,960
Other	738	1,091	919
	9,495	10,821	10,177
INCOME (LOSS) FROM CONTINUING OPERATIONS			
BEFORE INCOME TAXES	81,081	75,587	(49,410)
Provision for income taxes	27,712	27,127	4,355
INCOME (LOSS) FROM CONTINUING OPERATIONS	53,369	48,460	(53,765)
Income from discontinued operations, net of taxes	--	79	3,480
Gain on disposal of discontinued operations, net of taxes	--	3,208	--
NET INCOME (LOSS)	\$ 53,369	\$ 51,747	\$ (50,285)
Basic EPS			
Income (loss) per share:			
Continuing operations	\$ 1.97	\$ 1.78	\$ (1.83)
Discontinued operations	--	--	.12
Gain on disposal of discontinued operations	--	.12	--
NET INCOME (LOSS)	\$ 1.97	\$ 1.90	\$ (1.71)
Weighted average number of shares	27,109	27,181	29,428
Diluted EPS			
Income (loss) per share:			
Continuing operations	\$ 1.95	\$ 1.77	\$ (1.83)
Discontinued operations	--	--	.12
Gain on disposal of discontinued operations	--	.12	--
NET INCOME (LOSS)	\$ 1.95	\$ 1.89	\$ (1.71)
Weighted average number of shares	27,423	27,347	29,428
Dividends per share	\$.33	\$.295	\$.265

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

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS, EXCEPT SHARE INFORMATION)

	June 30	
ASSETS	1998	1997
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,124	\$ 13,904
Short-term investments	590	518
Trade accounts receivable, less allowance for doubtful accounts of \$8,913 in 1998 and \$7,945 in 1997	130,890	121,349
Inventories		
Raw materials	66,931	64,261
Work in process	32,099	26,030
Finished goods	94,957	80,926
	193,987	171,217
Prepaid expenses and other assets	10,445	13,087
Deferred income taxes	23,582	22,480
Net assets held for sale	2,046	3,037
Total Current Assets	371,664	345,592
OTHER ASSETS:		
Goodwill, net of accumulated amortization of \$16,689 in		

upon the exercise of stock options	153,400	16			2,998				3,014
Shares of Class A Common Stock exchanged upon the exercise of stock options and retired	(10,633)	(1)			(265)				(266)
Purchase of treasury stock, 100,000 shares at cost							(2,583)		(2,583)
Net change in restricted stock units					271				271
Common Stock dividends					(8,974)				(8,974)
Change in currency translation adjustment							(4,455)		(4,455)
Balance at June 30, 1998	16,859,027	\$1,686	10,296,827	\$1,030	\$ 47,647	\$337,565	\$(11,330)	\$(2,583)	\$374,015

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

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(AMOUNTS IN THOUSANDS)

	Fiscal Year Ended June 30		
	1998	1997	1996
OPERATING ACTIVITIES			
Income (loss) from continuing operations	\$ 53,369	\$ 48,460	\$ (53,765)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by continuing operating activities:			
Restructuring charge (payments), net	(1,584)	(8,918)	21,635
Impairment of long-lived assets	-	-	63,065
Depreciation	19,220	17,411	17,922
Amortization	3,965	3,417	3,652
Deferred income taxes (benefit)	1,055	3,725	(14,556)
(Gain) loss on disposal of assets	(1,156)	241	(1,405)
Equity in undistributed earnings of affiliates	(192)	-	-
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Accounts receivable	(8,747)	(5,773)	(12,979)
Inventories	(18,744)	7,734	(17,524)
Prepaid expenses and other assets	1,902	(2,049)	4,688
Accounts payable, accrued expenses and other liabilities	13,696	(6,031)	35,028
	62,784	58,217	45,761
Net cash provided by discontinued operations	-	653	9,638
Net cash provided by operating activities	62,784	58,870	55,399
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(29,170)	(29,742)	(31,080)
Proceeds from sale of assets	7,422	1,715	1,462
Discontinued operations:			
Proceeds from disposal of discontinued operations	-	88,164	-
Additions to property, plant and equipment	-	(142)	(1,141)
Increase in other assets	(1,322)	(1,494)	(1,347)
Business acquisitions, net of cash acquired	(23,632)	(37,705)	(13,415)
Repayment of debt of acquired businesses	-	-	(680)
Net changes in short-term investments	(72)	(652)	4,483
Net cash provided by (used in) investing activities	(46,774)	20,144	(41,718)
FINANCING ACTIVITIES			
Proceeds from long-term borrowings	88,678	106,346	91,867
Payments of long-term debt	(99,816)	(140,662)	(73,399)
Proceeds from exercise of stock options	2,715	1,935	772
Dividends	(8,936)	(7,992)	(7,793)
Purchase of treasury stock	(2,583)	-	-
Purchase and retirement of common stock	-	(25,564)	(28,567)
Net cash used in financing activities	(19,942)	(65,937)	(17,120)
Effect of exchange rate changes on cash and cash equivalents	152	827	96
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,780)	13,904	(3,343)
Cash and cash equivalents at beginning of year	13,904	-	3,343
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 10,124	\$ 13,904	\$ 0

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

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) DESCRIPTION OF BUSINESS

The Company designs, manufactures and sells an extensive line of valves for the plumbing and heating, water quality, industrial, and oil and gas markets located predominately in North America, Europe, and Asia.

(2) ACCOUNTING POLICIES

Principles of Consolidation

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

REVENUE RECOGNITION

Revenue is recognized, net of a provision for estimated returns and allowances, upon shipment.

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents consist of investments with maturities of three months or less at the date of purchase. Short-term investments consist of participation in mutual funds whose portfolios consist principally of United States Government securities. Short-term investments are valued at cost, which approximates market.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of trade receivables. 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. At June 30, 1998, the Company had no significant concentrations of credit risk.

INVENTORIES

Inventories are stated at the lower of cost (principally first-in, first-out method) or market.

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

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 10 to 40 years for buildings and improvements and 3 to 15 years for machinery and equipment.

LONG-LIVED ASSETS

Impairment losses are recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. In such instances, the carrying value of long-lived assets is reduced to their estimated fair value, as determined using an appraisal or a discounted cash flow approach, as appropriate.

INCOME TAXES

Deferred income taxes are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. 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 weighted average exchange rates for each year. Net translation gains or losses are adjusted directly to a separate component of stockholders' equity. Stock Based Compensation As allowed under Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, the Company accounts for its stock-based employee compensation plans in accordance with the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees.

EARNINGS PER SHARE

During fiscal year 1998, the Company adopted SFAS No. 128, Earnings Per Share. SFAS 128 required the Company to change the method formerly used to compute earnings per share (EPS) and to restate all prior periods presented. The requirements for calculating basic earnings per share exclude the dilutive effect of securities. Diluted earnings per share assumes the conversion of all dilutive securities (see Note 10).

DERIVATIVE FINANCIAL INSTRUMENTS

The Company uses foreign currency forward exchange contracts to manage currency exchange exposures in certain foreign currency denominated transactions. Gains and losses on contracts designated as hedges are deferred and recognized at the time of the related foreign currency denominated transactions.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the

financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

BASIS OF PRESENTATION

Certain amounts in fiscal years 1997 and 1996 have been reclassified to conform with the 1998 presentation.

NEW ACCOUNTING STANDARDS

SFAS No. 130, Reporting Comprehensive Income, SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information and SFAS No. 132, Employers' Disclosures about Pensions and Other Post-Retirement Benefits become effective in fiscal year 1999 and will be adopted at that time. Since these new standards require only additional disclosure, adoption will have no effect on the Company's results of operations or financial condition.

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, becomes effective in fiscal year 2000. This new standard will require the Company to recognize all derivative instruments as either assets or liabilities, at fair value, in its consolidated balance sheet. The Company is currently evaluating the effect of this new standard.

(3) DISCONTINUED OPERATIONS, RESTRUCTURING AND OTHER MATTERS

DISCONTINUED OPERATIONS

On September 4, 1996, the Company divested itself of its Municipal Water Group of businesses, which included Henry Pratt Company, James Jones Company and Edward Barber & Company Ltd. by selling the stock of each entity and realizing a \$3.2 million after-tax gain. The results of operations of these companies have been reported as discontinued operations, net of income taxes, in the consolidated statements of operations. Unassigned corporate interest expense has been allocated based on the ratio of the net assets of the discontinued operations to the consolidated net assets and unassigned debt of the Company.

The following table summarizes the results of operations of the Municipal Water Group prior to the divestiture:

	Fiscal Year Ended June 30 ,	
	1997	1996
	(in thousands)	
Revenues	\$14,027	\$86,179
Costs and expenses	13,900	80,278
	-----	-----
Income before income taxes	127	5,901
Income taxes	48	2,421
	-----	-----
Income from discontinued operations	\$ 79	\$ 3,480
	=====	=====

RESTRUCTURING

During fiscal year 1996, the Company decided to undertake certain restructuring initiatives aimed at improving the efficiency of certain of its continuing operations. The two most significant of those initiatives were the consolidation and downsizing of Pibiviesse S.p.A. ("Pibiviesse") and the relocation of Jameco Industries, Inc. ("Jameco"). In connection with this restructuring plan, the Company recorded a \$25,415,000 restructuring charge during fiscal year 1996. The restructuring charge consisted of \$9,300,000 for severance costs, \$7,715,000 for plant closure costs and \$8,400,000 for asset write-downs. At June 30, 1998, these restructuring initiatives were substantially complete. Related cash payments were approximately the same as amounts that were accrued as restructuring costs during fiscal year 1996. Other Matters During fiscal year 1996, the Company recorded a \$13.8 million selling, general and administrative expense charge, principally for product liability costs, environmental remediation reserves and bad debt reserves. The Company also recorded a \$9.5 million cost of goods sold charge during fiscal year 1996 to write down inventories to their estimated market value.

(4) LONG-LIVED ASSET IMPAIRMENT

During fiscal year 1996, the Company adopted SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and recorded a \$63,065,000 charge for long-lived asset impairment losses. Such losses occurred principally at its Italian subsidiaries and were the result of declining margins and operating profits at the subsidiaries, and the potential non-deductibility of goodwill for income tax purposes. In connection with a re-evaluation of its business strategy in Italy, management concluded an impairment had occurred and recorded a loss by reducing the carrying value of affected long-lived assets, primarily goodwill, to fair value, as determined using a discounted cash flow approach.

(5) BUSINESS ACQUISITIONS

In fiscal year 1998, the Company acquired six enterprises, the largest of which were Telford Valve & Specialties, Inc. of Edmonton, Alberta, Canada, Aerodyne Controls Corporation of Ronkonkoma, New York, and Atkomatic Valve Company, Inc. of Indianapolis, Indiana. During fiscal year 1997, the Company acquired Ames Company, Inc. of Woodland, California and Consolidated Precision Corporation of Riviera

Beach, Florida. In fiscal year 1996, the Company acquired four businesses, the most significant being the purchase of Societe des Etablissements Rene Trubert S.A. located in Chartres, France. All of these acquired companies are valve manufacturers and the aggregate purchase price of the acquisitions was approximately \$74.8 million. The goodwill which resulted from these acquisitions is being amortized on a straight-line basis over a 40 year period. These acquisitions have all been accounted for under the purchase method and the results of operations of the acquired businesses have been included in the consolidated financial statements from the date of acquisition. Had these acquisitions occurred at the beginning of fiscal year 1998, 1997 or 1996, the effect on operating results would not have been material.

(6) INCOME TAXES The significant components of the Company's deferred income tax liabilities and assets are as follows:

	June 30,	
	1998	1997
Deferred income tax liabilities:		
	(in thousands)	
Excess tax over book depreciation	\$11,182	\$ 8,855
Inventory	5,428	5,962
Other	2,246	1,858
Total deferred income tax liabilities	18,856	16,675
Deferred income tax assets:		
Accrued expenses	10,969	18,727
Net operating loss carryforward	12,625	6,054
Bad debt reserve	1,815	1,580
Other	5,934	326
Total deferred income tax assets	31,343	26,687
Valuation allowance for deferred income tax assets	(7,761)	(4,207)
Net deferred income tax assets	23,582	22,480
Net deferred income tax asset	\$ 4,726	\$ 5,805
	=====	=====

The components of the provision for income taxes were as follows:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(in thousands)		
Continuing operations	\$27,712	\$27,127	\$ 4,355
Discontinued operations	-	3,412	2,421
	\$27,712	\$30,539	\$ 6,776
	=====	=====	=====

The provision for income taxes from continuing operations is based on the following pre-tax income (loss):

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(in thousands)		
Domestic	\$61,204	\$60,530	\$ 19,816
Foreign	19,877	15,057	(69,226)
	\$81,081	\$75,587	\$ (49,410)
	=====	=====	=====

The provision for income taxes from continuing operations consists of the following:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(in thousands)		
Current tax expense (benefit):			
Federal	\$19,198	\$20,417	\$ 15,739
Foreign	5,249	(369)	1,176
State	3,483	1,714	1,996
	-----	-----	-----

	27,930	21,762	18,911
	-----	-----	-----
Deferred tax expense (benefit):			
Federal	472	1,377	(8,458)
Foreign	(772)	3,747	(3,964)
State	82	241	(2,134)
	-----	-----	-----
	(218)	5,365	(14,556)
	-----	-----	-----
	\$27,712	\$27,127	\$ 4,355
	=====	=====	=====

Actual income taxes reported from continuing operations are different than would have been computed by applying the federal statutory tax rate to income (loss) from continuing operations before income taxes. The reasons for this difference are as follows:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	-----	-----	-----
		(in thousands)	
Computed expected federal income tax expense (benefit)	\$28,378	\$26,455	\$(17,294)
State income taxes, net of federal tax benefit	2,317	1,271	(90)
Goodwill writedown and amortization	998	898	17,443
Foreign tax rate and regulation differential	(2,954)	(1,893)	3,830
Other, net	(1,027)	396	466
	-----	-----	-----
	\$27,712	\$27,127	\$ 4,355
	=====	=====	=====

At June 30, 1998, the Company has foreign net operating loss carryforwards of \$22.8 million for income tax purposes that expire in fiscal years 1999 through 2006. In addition, foreign net operating losses of \$10.2 million can be carried forward indefinitely. Undistributed earnings of the Company's foreign subsidiaries amounted to approximately \$34 million, \$28 million and \$37 million at June 30, 1998, 1997 and 1996, respectively. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been recorded thereon. Upon distribution of those earnings, in the form of dividends or otherwise, the Company will 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 \$1.8 million would be payable upon remittance of all previously unremitted earnings at June 30, 1998.

The Company made income tax payments of \$21.5 million, \$30.2 million and \$27.8 million in fiscal years 1998, 1997 and 1996, respectively.

(7) ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities consist of the following:

	June 30,	
	1998	1997
	-----	-----
	(in thousands)	
Commissions and sales incentives payable	\$11,836	\$ 9,152
Accrued insurance costs	11,366	10,626
Other	29,135	33,960
	-----	-----
	\$52,337	\$53,738
	=====	=====

(8) FINANCING ARRANGEMENTS

Long-term debt consists of the following:

	June 30,	
	1998	1997
	-----	-----
	(in thousands)	
8-3/8% Notes, due December, 2003	\$ 75,000	\$ 75,000
\$125 million revolving line of credit, accruing interest at a variable rate (6.79% and 6.55% at June 30, 1998 and 1997, respectively) of either Eurodollar rate plus .165%, Prime Rate or a competitive money market rate to be specified by the Lender, and expiring March 2003	19,000	29,000

Industrial Revenue Bonds, maturing periodically from 2003 through 2020, accruing interest at a variable rate based on weekly tax-exempt interest rates (3.60% and 4.25% at June 30, 1998 and 1997, respectively)	17,265	17,265
Other	5,811	7,094
	-----	-----
	117,076	128,359
Less current portion	1,695	2,422
	-----	-----
	\$115,381	\$125,937
	=====	=====

At June 30, 1998, \$106 million was available for borrowing under the Company's \$125 million revolving line of credit.

Principal payments during each of the next five fiscal years are due as follows:

1999-\$1,695; 2000-\$1,109; 2001-\$385; 2002-\$362; and 2003-\$24,086. Interest paid for all periods presented in the accompanying consolidated financial statements approximates interest expense.

Certain of the Company's loan agreements contain covenants that require, among other items, the maintenance of certain financial ratios and net worth, and limit the Company's ability to enter into secured borrowing arrangements. Under its most restrictive loan covenant, which requires the Company to maintain a net worth of not less than the sum of \$295 million and 50% of cumulative consolidated net income for complete fiscal years subsequent to June 30, 1996, the Company had \$26.5 million available at June 30, 1998 for the payment of dividends.

(9) COMMON STOCK The Company's Board of Directors authorized the purchase of up to 1,500,000 and 2,000,000 shares of the Company's common stock in open market and private purchases during fiscal years 1997 and 1996, respectively. At June 30, 1998, 2,880,200 shares of the Company's common stock had been purchased and retired since commencement of this purchase plan.

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 6,021,608 shares of Class A Common Stock for issuance under its stock-based compensation plans and 10,296,827 shares for conversion of Class B Stock to Class A Common Stock.

(10) EARNINGS PER SHARE

During fiscal 1998, the Company adopted SFAS No. 128, Earnings Per Share. The following table sets forth a reconciliation of basic to diluted EPS:

Fiscal Year Ended June 30,									

(11) STOCK-BASED COMPENSATION

The Company has several stock option plans under which key employees and outside directors have been granted incentive (ISOs) and nonqualified (NSOs) options to purchase the Company's Class A Common Stock. Generally, options become exercisable over a five-year period at the rate of 20% per year and expire ten years after the date of grant. ISOs and NSOs granted under the plans have exercise prices of not less than 100% and 50% of the fair market value of the common stock on the date of grant, respectively. At June 30, 1998, 4,659,514 shares of Class A Common Stock were authorized for future grants of options under the Company's stock option plans.

The following is a summary of stock option activity and related information:

Fiscal Year Ended June 30,					
1998		1997		1996	
(Options in thousands)		Weighted average exercise price		Weighted average exercise price	
Options		Options		Options	

Outstanding at beginning of year	1,348	\$ 20.01	1,137	\$ 21.04	1,019	\$ 20.06
Granted	284	25.12	378	16.38	314	23.36
Canceled	(117)	20.72	(55)	21.79	(121)	22.16
Exercised (a)	(153)	19.43	(112)	17.28	(75)	15.61
	-----	-----	-----	-----	-----	-----
Outstanding at end of year	1,362	\$ 21.08	1,348	\$ 20.01	1,137	\$ 21.04
	=====	=====	=====	=====	=====	=====
Exercisable at end of year	619	\$ 20.19	552	\$ 20.39	460	\$ 19.34
	=====	=====	=====	=====	=====	=====

(a) Includes 13,100 options in 1998 exercised in exchange for 10,633 shares of outstanding Class A common shares which were contributed to Treasury and subsequently retired.

The following table summarizes information about options outstanding at June 30, 1998:

(Options in thousands)	Options Outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
Range of Exercise Prices					
\$10.69 - \$11.38	13	2.4	\$ 10.84	13	\$ 10.84
\$14.25 - \$16.38	339	7.6	16.23	110	15.93
\$16.60 - \$18.00	172	4.3	17.22	153	17.19
\$22.13 - \$25.38	838	7.0	23.99	343	23.25
	-----	-----	-----	-----	-----
\$10.69 - \$25.38	1,362	5.3	21.08	619	20.19
	=====	=====	=====	=====	=====

The Company has a Management Stock Purchase Plan which allows for the granting of Restricted Stock Units (RSUs) to key employees to purchase up to 1,000,000 shares of Class A Common Stock at 67% of the fair market value on the date of grant. RSUs vest annually over a three-year period from the date of grant. The difference between the RSU price and fair market value at the date of award is amortized to compensation expense ratably over the vesting period. At June 30, 1998, 100,899 RSUs were outstanding. Dividends declared for RSUs which remain unpaid at June 30, 1998 total \$38,000.

Pro forma information regarding net income (loss) and net income (loss) per share is required by SFAS No. 123 for awards granted after June 30, 1995 as if the Company had accounted for its stock-based awards to employees under the fair value method of SFAS 123. The weighted average grant date fair value of options granted during fiscal years 1998, 1997 and 1996 was \$5.52, \$3.72 and \$5.69, respectively. The fair value of the Company's stock-based awards to employees was estimated using a Black-Scholes option pricing model and the following assumptions:

	1998	1997	1996
	-----	-----	-----
Expected life (years)	5.0	5.0	5.0
Expected stock price volatility	15.0%	15.0%	15.0%
Expected dividend yield	1.3%	1.8%	1.1%
Risk-free interest rate	5.54%	6.56%	6.17%

The Company's pro forma information follows:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	-----	-----	-----
	(in thousands, except per share information)		
Net income (loss) - as reported	\$ 53,369	\$ 51,747	\$ (50,285)
Net income (loss) - pro forma	52,443	51,132	(50,613)
Basic EPS - as reported	1.97	1.90	(1.71)
Basic EPS - pro forma	1.93	1.88	(1.72)
Diluted EPS - as reported	1.95	1.89	(1.71)
Diluted EPS - pro forma	1.91	1.87	(1.72)

Because SFAS 123 is applicable only to awards granted subsequent to June 30, 1995, its pro forma effect will not be fully reflected until fiscal year 2000.

(12) EMPLOYEE BENEFIT PLANS

The Company sponsors defined benefit pension plans covering substantially all of its domestic non-union employees. Benefits are based primarily on years of service and employees' compensation. The funding policy of the Company for these plans is to contribute annually the maximum amount that can be deducted for federal income tax purposes. The components of net pension expense follow:

	Fiscal Year Ended June 30,		
	1998	1997	1996
	(in thousands)		
Defined benefit plans:			
Service cost - benefits earned	\$1,671	\$ 1,516	\$ 1,620
Interest cost on projected benefit obligation	2,563	2,189	2,200
Actual return on plan assets	(7,027)	(1,976)	(3,689)
Net amortization and deferral	4,659	(346)	1,447
Total pension expense	\$1,866	\$ 1,383	\$ 1,578
	=====	=====	=====

The funded status of the Company's principal defined benefit plans and the amounts recognized in the consolidated balance sheets at June 30, follows:

	1998	1997	1996
	(in thousands)		
Vested benefit	\$ (29,669)	\$ (22,804)	\$ (22,429)
Nonvested benefit	(2,485)	(1,299)	(1,774)
Accumulated benefit obligation	(32,154)	(24,103)	(24,203)
Benefit obligation related to future compensation levels	(6,652)	(5,002)	(5,699)
Projected benefit obligation	(38,806)	(29,105)	(29,902)
Fair value of plan assets, invested primarily in equities and debt securities	35,905	28,014	29,348
Projected benefit obligation in excess of plan assets	(2,901)	(1,091)	(554)
Unrecognized transition obligation	(1,907)	(2,225)	(2,543)
Unrecognized prior service cost	1,764	1,055	546
Unrecognized net (gain) loss	420	(676)	9
Minimum liability adjustment	(903)	(217)	(420)
Net accrued pension cost included in consolidated balance sheets	\$ (3,527)	\$ (3,154)	\$ (2,962)
	=====	=====	=====

The primary assumptions used in determining related obligations of the plans were: discount rate 7% in fiscal year 1998 and 8% in fiscal years 1997 and 1996; increases in compensation levels 5% in fiscal years 1998, 1997 and 1996; and long-term rates of return on assets 9% in fiscal year 1998 and 8% in fiscal years 1997 and 1996.

The Company sponsors a 401(k) Savings Plan for substantially all domestic non-union employees. Under the Plan, the Company matches a specified percentage of employee contributions, subject to certain limitations. Company expense incurred in connection with this plan was \$400,000, \$330,000 and \$350,000 in fiscal years 1998, 1997 and 1996, respectively.

(13) CONTINGENCIES AND ENVIRONMENTAL REMEDIATION

CONTINGENCIES

In April 1998, the Company became aware of a complaint that was filed under seal in the State of California alleging violations of the California False Claims Act. The complaint alleges that a former subsidiary of the company sold products utilized in municipal water systems which failed to meet contractually specified standards and falsely certified that such standards had been met. The complaint further alleges that the municipal entities have suffered tens of millions of dollars in damages as a result of defective products and seeks treble damages, reimbursement of legal costs and penalties. The Company intends to vigorously contest this matter but cannot presently determine whether any loss will result from it. Other lawsuits and proceedings or claims, arising from the ordinary course of operations, are also pending or threatened against the Company and its subsidiaries. The Company has established reserves which it presently believes are adequate in light of probable and estimable exposure to pending and threatened litigation of which it has knowledge.

ENVIRONMENTAL REMEDIATION

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 as do the related levels of remediation efforts. Environmental liabilities are recorded based on the most probable cost, if known, or on the estimated minimum cost of remediation. The Company's accrued estimated environmental liabilities are based on assumptions which are subject to a number of factors and uncertainties. Circumstances which can affect the reliability and precision of these estimates include identification of additional sites, environmental regulations, level of cleanup required, technologies available, number and financial condition of other contributors to remediation and the time period over which remediation may occur. The Company recognizes changes in estimates as new remediation requirements are defined or as new information becomes available. The Company estimates that its

accrued environmental remediation liabilities will likely be paid over the next five to ten years.

(14) FINANCIAL INSTRUMENTS

FAIR VALUE

The carrying amounts of cash and cash equivalents, short-term investments, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments. The fair value of the Company's 8-3/8% notes, due December 2003, is based on quoted market prices. The fair value of the Company's variable rate debt approximates its carrying value. The carrying amount and the estimated fair market value of the Company's long-term debt, including the current portion, are as follows:

	June 30,	
	1998	1997
	(in thousands)	
Carrying amount	\$ 117,076	\$ 128,359
Estimated fair value	124,366	133,774

USE OF DERIVATIVES

The Company uses foreign currency forward exchange contracts to reduce the impact of currency fluctuations on certain anticipated intercompany purchase transactions that are expected to occur within the fiscal year and certain other foreign currency transactions. Related gains and losses are recognized when the contracts expire, which is generally in the same period as the underlying foreign currency denominated transaction. These contracts do not subject the Company to significant market risk from exchange movement because they offset gains and losses on the related foreign currency denominated transactions. At June 30, 1998 and 1997, there were no significant amounts of open foreign currency forward exchange contracts or related unrealized gains or losses.

(15) FINANCIAL INFORMATION BY GEOGRAPHIC AREA

Financial information by geographic area is summarized as follows. Transfer prices to foreign subsidiaries are intended to produce profit margins commensurate with sales and marketing efforts:

	Domestic	Canada	Europe	Asia	Eliminations	Consolidated
	(in thousands)					
	Fiscal Year Ended June 30, 1998					
Net sales	\$552,379	\$ 29,352	\$ 131,936	\$ 16,299	\$ -	\$ 729,966
Transfer between areas	14,827	5,343	535	5,325	(26,030)	-
	\$567,206	\$ 34,695	\$ 132,471	\$ 21,624	\$ (26,030)	\$ 729,966
Operating income of geographic areas	\$ 83,941	\$ 427	\$ 18,912	\$ 1,811	\$ (188)	\$ 104,903
General corporate expenses						14,327
Operating income						\$ 90,576
Assets	\$474,701	\$ 36,833	\$ 122,940	\$ 32,935	\$ (1,589)	\$ 665,820
	Fiscal Year Ended June 30, 1997					
Net sales	\$ 535,954	\$ 27,681	\$ 139,636	\$ 17,069	\$ -	\$ 720,340
Transfer between areas	12,209	5,549	421	4,004	(22,183)	-
	\$ 548,163	\$ 33,230	\$ 140,057	\$ 21,073	\$ (22,183)	\$ 720,340
Operating income of geographic areas	\$ 81,283	\$ 1,401	\$ 16,074	\$ 653	\$ (574)	\$ 98,837
General corporate expenses						12,429
Operating income						\$ 86,408
Assets	\$ 449,484	\$ 24,560	\$ 118,171	\$ 31,499	\$ (1,631)	\$ 622,083
	Fiscal Year Ended June 30, 1996					
Net sales	\$ 476,279	\$ 28,086	\$ 118,673	\$ 17,838	\$ -	\$ 640,876
Transfer between areas	10,220	5,180	3,549	-	(18,949)	-
	\$ 486,499	\$ 33,266	\$ 122,222	\$ 17,838	\$ (18,949)	\$ 640,876

Operating income (loss) of geographic areas	\$ 43,576	\$ (7,709)	\$ (59,242)	\$ 907	\$ (2,558)	\$ (25,026)
General corporate expenses						14,207
Operating loss						\$ (39,233)
Assets of continuing operations	\$ 400,469	\$ 25,357	\$ 123,270	\$ 30,118	\$ (1,321)	\$ 577,893
Net assets of discontinued operations	65,202	-	13,199	-	-	78,401
	\$ 465,671	\$ 25,357	\$ 136,469	\$ 30,118	\$ (1,321)	\$ 656,294

Included in domestic sales are export sales of \$57.8 million in fiscal year 1998, \$54.1 million in fiscal year 1997 and \$43.5 million in fiscal year 1996.

(16) QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	First Quarter(a) (in thousands, except per share information)	Second Quarter	Third Quarter	Fourth Quarter
Fiscal year ended June 30, 1998:				
Net sales	\$179,460	\$179,198	\$183,615	\$187,693
Gross profit	63,907	63,708	64,234	62,487
Net income	13,620	13,609	14,041	12,099
Basic earnings per share	.50	.50	.52	.45
Diluted earnings per share	.50	.50	.51	.44
Dividends per common share	.0775	.0775	.0875	.0875
Fiscal year ended June 30, 1997:				
Net sales	\$176,008	\$174,220	\$184,191	\$185,921
Gross profit	60,356	60,152	63,730	61,154
Income from continuing operations	12,346	11,750	12,889	11,475
Net income	15,633	11,750	12,889	11,475
Basic earnings per share:				
Continuing operations	.44	.43	.48	.42
Discontinued operations	.12	-	-	-
Net income	.56	.43	.48	.42
Diluted earnings per share (net income)	.56	.43	.47	.42
Dividends per share	.07	.07	.0775	.0775

(a) Includes \$3.2 million after-tax gain from sale of discontinued operations in 1997.

(17) SUBSEQUENT EVENT (UNAUDITED)

In July 1998, the Company acquired Hoke, Inc. (Hoke), a manufacturer and distributor of industrial valves and fittings headquartered in Cresskill, New Jersey. The agreed upon purchase price for the Hoke acquisition amounted to approximately \$85,000,000, including assumption of debt. Hoke's annual sales and net income for the year ended December 31, 1997, amounted to approximately \$70,000,000 and \$1,353,000, respectively.

SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS WATTS INDUSTRIES, INC. AND SUBSIDIARIES (DOLLAR AMOUNTS IN THOUSANDS)

Column A	Column B	Column C	Column D	Column E	
Additions					
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts - Describe	Deductions Describe (1)	Balance at End of Period
Year ended June 30, 1998 Deducted from asset account: Allowance for doubtful accounts	\$7,945	\$2,694	\$208 (2)	\$1,934	\$8,913
Year ended June 30, 1997 Deducted from asset account: Allowance for doubtful accounts	\$8,822	\$2,489	\$30 (2)	\$3,396	\$7,945
Year ended June 30, 1996 Deducted from asset account:					

Allowance for doubtful					
accounts	\$5,417	\$4,408	\$320 (2)	\$1,323	\$8,822
(1) Uncollectible accounts written off, net of recoveries.					
(2) Balance acquired in connection with acquisition of Telford Valves in 1998,					
Ames in 1997, Trubert and Artec in 1996.					

Exhibit Index

Exhibits 10.1-10.6, 10.8, 10.22, and 10.29 constitute all of the management contracts and compensation plans and arrangements of the Company required to be filed as exhibits to this Annual Report. Upon written request of any stockholder to the Chief Financial Officer at the Company's principal executive office, the Company will provide any of the Exhibits listed below.

Exhibit No. Description and Location

- 3.1 Restated Certificate of Incorporation, as amended. (12)
- 3.2 Amended and Restated By-Laws. (1)
- 9.1 Horne Family Voting Trust Agreement-1991 dated as of October 31, 1991 (2), Amendments dated November 19, 1996 (18), February 24, 1997 (18), June 5, 1997 (18), August 26, 1997 (18), and October 17, 1997*.
- 9.2 The George B. Horne Voting Trust Agreement-1997 dated as of August 26, 1997 (18), Amendments dated October 30, 1997*, July 31, 1998*, and August 31, 1998*.
- 10.1 Employment Agreement effective as of September 1, 1996 between the Registrant and Timothy P. Horne. (14)
- 10.2 Supplemental Compensation Agreement effective as of September 1, 1996 between the Registrant and Timothy P. Horne. (14)
- 10.3 Deferred Compensation Agreement between the Registrant and Timothy P. Horne, as amended. (4)
- 10.4 1996 Stock Option Plan, dated October 15, 1996. (15)
- 10.5 1989 Nonqualified Stock Option Plan. (3)
- 10.6 Watts Industries, Inc. Retirement Plan for Salaried Employees dated December 30, 1994, as amended and restated effective as of January 1, 1994, (12), Amendment No. 1 (14), Amendment No. 2 (14), Amendment No. 3 (14), Amendment No. 4 dated September 4, 1996. (18)
- 10.7 Registration Rights Agreement dated July 25, 1986. (5)
- 10.8 Executive Incentive Bonus Plan, as amended. (12)
- 10.9 Indenture dated as of December 1, 1991 between the Registrant and The First National Bank of Boston, as Trustee, including form of 8-3/8% Note Due 2003. (8)
- 10.10 Loan Agreement and Mortgage among The Industrial Development Authority of the State of New Hampshire, Watts Regulator Co. and Arlington Trust Company dated August 1, 1985. (4)
- 10.11 Amendment Agreement relating to Watts Regulator Co.(Canaan and Franklin, New Hampshire, facilities) financing dated December 31, 1985. (4)
- 10.12 Sale Agreement between Village of Walden Industrial Development Agency and Spence Engineering Company, Inc. dated June 1, 1994. (11)
- 10.13 Letter of Credit, Reimbursement and Guaranty Agreement dated June 1, 1994 by and among the Registrant, Spence Engineering Company, Inc. and First Union National Bank of North Carolina. (11), Amendment No. 1 (14), Amendment No. 2 dated October 1, 1996. (18)
- 10.14 Trust Indenture from Village of Walden Industrial Development Agency to The First National Bank of Boston, as Trustee, dated June 1, 1994. (11)
- 10.15 Loan Agreement between Hillsborough County Industrial Development Authority and Leslie Controls, Inc. dated July 1, 1994. (11)
- 10.16 Letter of Credit, Reimbursement and Guaranty Agreement dated July 1, 1994 by and among the Registrant, Leslie Controls, Inc. and First Union National Bank of North Carolina (11), Amendment No. 1 (14), Amendment No. 2 dated October 1, 1996. (18)
- 10.17 Trust Indenture from Hillsborough County Industrial Development Authority to The First National Bank of Boston, as Trustee, dated July 1, 1994. (11)
- 10.18 Loan Agreement between The Rutherford County Industrial Facilities and Pollution Control Financing Authority and Watts Regulator Company dated September 1, 1994. (12)
- 10.19 Letter of Credit, Reimbursement and Guaranty Agreement dated September 1, 1994 by and among the Registrant, Watts Regulator Company and The First Union National Bank of North Carolina (12), Amendment No. 1 (14), Amendment No. 2 dated October 1, 1996. (18)
- 10.20 Trust Indenture from The Rutherford County Industrial Facilities and Pollution Control Financing Authority to The First National Bank of Boston, as Trustee, dated September 1, 1994. (12)
- 10.21 Amended and Restated Stock Restriction Agreement dated October 30, 1991 (2), Amendment dated August 26, 1997. (18)
- 10.22 Watts Industries, Inc. 1991 Non-Employee Directors' Nonqualified Stock Option Plan (7), Amendment No. 1. (14)
- 10.23 Letters of Credit relating to retrospective paid loss insurance programs.

(10)

- 10.24 Form of Stock Restriction Agreement for management stockholders. (5)
- 10.25 Revolving Credit Agreement dated December 23, 1987 between Nederlandse Creditbank NV and Watts Regulator (Nederland) B.V. and related Guaranty of Watts Industries, Inc. and Watts Regulator Co. dated December 14, 1987.

(6)

- 10.26 Loan Agreement dated September 1987 with, and related Mortgage to, N.V. Sallandsche Bank. (6)
- 10.27 Agreement of the sale of shares of Intermed, S.p.A., RIAF Holding A.G. and the participations in Multiscope Due S.R.L. dated November 6, 1992. (9)
- 10.28 Amended and Restated Revolving Credit Agreement dated March 27, 1998 between and among Watts Investment Company, certain financial institutions, BankBoston N.A., as Administrative Agent, and the Registrant, as Guarantor. (17)

10.29 Watts Industries, Inc. Management Stock Purchase Plan dated October 17, 1995 (13), Amendment No. 1 dated August 5, 1997. (18)
10.30 Stock Purchase Agreement dated as of June 19, 1996 by and among Mueller Co., Tyco Valves Limited, Watts Investment Company, Tyco International Ltd. and Watts Industries, Inc. (16)
11 Statement Regarding Computation of Earnings per Common Share. (19)
21 Subsidiaries. *
23.1 Consent of KPMG Peat Marwick LLP. *
23.2 Consent of Ernst & Young LLP, Independent Auditors, predecessor auditors.*
23.3 Consent of Deloitte & Touche, Independent Auditors, predecessor auditors.*
27 Financial Data Schedule-Fiscal 1998. *
27.1 Financial Data Schedule-Fiscal 1997 Restated. *

Incorporated By Reference To:

- (1) Relevant exhibit to Registrant's Form 8-K dated May 15, 1992.
- (2) Relevant exhibit to Registrant's Form 8-K dated November 14, 1991.
- (3) Relevant exhibit to Registrant's Form 10-K for the year ended June 30, 1989.
- (4) Relevant exhibit to Registrant's Form S-1 (No. 33-6515) dated June 17, 1986.
- (5) Relevant exhibit to Registrant's Form S-1 (No. 33-6515) as part of the Second Amendment to such Form S-1 dated August 21, 1986.
- (6) Relevant exhibit to Registrant's Form S-1 (No. 33-27101) dated February 16, 1989.
- (7) Relevant exhibit to Registrant's Amendment No. 1 to Form 10-K for year ended June 30, 1992.
- (8) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1992.
- (9) Relevant exhibit to Registrant's Amendment No. 2 dated February 22, 1993 to Form 8-K dated November 6, 1992.
- (10) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1993.
- (11) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1994.
- (12) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1995.
- (13) Relevant exhibit to Registrant's Form S-8 (No. 33-64627) dated November 29, 1995.
- (14) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1996.
- (15) Relevant exhibit to Registrant's Form S-8 (No. 333-32685) dated August 1, 1997.
- (16) Relevant exhibit to Registrant's Form 8-K dated September 4, 1996.
- (17) Relevant exhibit to Registrant's Form 10-Q for quarter ended March 31, 1998.
- (18) Relevant exhibit to Registrant's Form 10-K for year ended June 30, 1997.
- (19) Notes to Consolidated Financial Statements, Note 10, of this Report.

* Filed as an exhibit to this Report with the Securities and Exchange Commission

**AMENDMENT
TO
HORNE FAMILY VOTING TRUST AGREEMENT--1991**

AMENDMENT dated as of the 17th day of October, 1997 by and among Timothy P. Horne and Noah T. Herndon, as trustees (together, the "Trustees") under the Horne Family Voting Trust Agreement--1991, as amended (the "Voting Trust Agreement"), Frederic B. Horne as trustee of the Peter W. Horne Trust--1976 (the "Stockholder"), and Watts Industries, Inc., a Delaware corporation (the "Company").

WHEREAS, the Company, the Trustees and the Stockholder, as the registered holder of all of the voting trust certificates outstanding under the Voting Trust Agreement, desire to amend the Voting Trust Agreement to provide that voting trust certificates may not be transferred without the written consent of all of the Trustees.

NOW, THEREFORE, the parties hereto do hereby agree as follows:

1. The second paragraph of Section 1 of the Voting Trust Agreement is hereby amended and restated in its entirety to read as follows:

"Any registered holder of voting trust certificates hereunder may from time to time withdraw shares represented thereby pursuant to this Agreement in the manner provided below in this Section 1, and such shares, when so withdrawn, shall be free of any restrictions imposed by this Agreement, but shall remain subject to any and all restrictions imposed by other agreements or by law. Such withdrawal shall be effected only by a written amendment to this Agreement in the form of Exhibit A hereto executed by all of the Trustees then serving hereunder (acting together or, if all such Trustees do not agree, by the Trustee, if any, having the Determination Power with respect to such withdrawal under Section 10 hereof), and, if neither TIMOTHY P. HORNE nor FREDERIC B. HORNE is then serving as a Trustee hereunder, also by the holders of a majority in interest of the voting trust certificates hereunder then outstanding; provided, however, that in the event TIMOTHY P. HORNE for any reason ceases to serve as a Trustee hereunder, any successor Trustee appointed pursuant to the second paragraph of Section 11 hereof (or any co-Trustee appointed pursuant to the sixth sentence of the first paragraph of Section 11) shall have the sole power to consent to and authorize (without any required consent or approval of any other Trustee or any holder of voting trust certificates) the withdrawal of any shares of Class B Common Stock deposited by TIMOTHY P. HORNE at the date hereof or hereafter, or capital stock otherwise represented by voting trust certificates held by TIMOTHY P. HORNE as of the date he ceases to serve as a Trustee hereunder or held by him thereafter (collectively, "TPH Shares"). Upon the surrender of the voting trust certificate or certificates designated in such amendment by such holder, the Trustees are authorized to deliver or cause to be delivered to such holder a certificate or certificates for the shares of the capital stock of the Company so withdrawn, with any appropriate restrictive legends, and a voting trust certificate in respect of the remaining shares, if any. Nothing in this Section 1 or in any such amendment shall modify, amend, limit or terminate any other restrictions contained in, or be construed as a consent to any transfer of shares subject to this Agreement under, any other agreement or instrument, unless such amendment specifically refers to such other agreement or instrument and satisfies all requirements for amendment or waiver thereof (including execution and delivery by appropriate parties)."

2. The first paragraph of Section 4 of the Voting Trust Agreement is hereby amended and restated in its entirety to read as follows:

"4. Transfer of Certificates; Restrictions. The transfer of any voting trust certificate (including without limitation any sale, assignment, donation, pledge, encumbrance, grant of a security interest, hypothecation or other transfer or disposition) (a) shall be effected only with the written consent of all of the Trustees then serving hereunder (acting together, or, if all such Trustees do not agree, by the Trustee, if any, having the Determination Power with respect to such transfer under Section 10 hereof) and (b) shall be subject to any restrictions, conditions and other provisions applicable to it or to the stock which it represents, whether imposed by law, specified on the relevant certificate or specified in the Restated Certificate of Incorporation of the Company, as amended (the "Restated Certificate") (provided that any transfer of voting trust certificates without a transfer of the underlying stock held in this voting trust shall in no way affect the voting rights of such underlying stock, consistent with the terms of the Restated Certificate), this Agreement or any other agreement, including without limitation the Stock Restriction Agreement dated as of August 28, 1986, as the same may have been or may hereafter be amended and/or restated, among parties hereto. Any attempted transfer in violation of such restrictions, conditions and other provisions shall be void ab initio and the Trustees shall not register such transfer or recognize the intended transferee as the holder of the voting trust certificate for any purpose. To the extent permitted by law, voting trust certificates shall not be subject to attachment, garnishment, judicial order, levy, execution or similar process, however instituted, for satisfaction of a judgment or otherwise."

3. Clause (iii) of the fourth paragraph of Section 10 of the Voting Trust Agreement is hereby amended and restated in its entirety to read as follows:

"(iii) If at any time FREDERIC B. HORNE shall cease to serve as a Trustee hereunder while TIMOTHY P. HORNE is serving as a Trustee hereunder, the concurrence of both TIMOTHY P. HORNE and any successor Trustee appointed in accordance with the second paragraph of Section 11 shall be required in connection with any vote involving the election or removal of a Director or Directors of the Company as provided in clause

(ii) above, but in all other respects TIMOTHY P. HORNE (for so long as he continues to serve as a Trustee hereunder) shall have the Determination Power."

4. The first paragraph of Section 11 of the Voting Trust Agreement is hereby amended by deleting the following text in its entirety:

"At least one Trustee shall serve hereunder at all times. Trustees shall in no event be subject to removal for any reason and any Trustee

hereunder shall serve until his or her resignation, refusal to act, death, permanent disability or incapacity (as hereinafter defined) to act. Any Trustee hereunder may resign by a signed instrument delivered to the remaining Trustee or Trustees, if any, or otherwise to the registered holders of the outstanding voting trust certificates. The following provisions shall govern the succession of Trustees hereunder. In the event that FREDERIC B. HORNE shall cease to serve as a Trustee hereunder while TIMOTHY P. HORNE is serving as a Trustee hereunder, then TIMOTHY P. HORNE and any individual designated pursuant to the following paragraph of this Section 11 shall serve as co-Trustees hereunder; provided, however, that TIMOTHY P. HORNE shall have the Determination Power for so long as he serves as a Trustee hereunder in such circumstances to the extent provided in Section 10; and provided further, however, that (i) if no designation of a successor Trustee pursuant to the following paragraph of this Section 11 shall be in effect at the time FREDERIC B. HORNE ceases to serve as a Trustee hereunder, or (ii) if all successor Trustees designated pursuant to the following paragraph of this Section 11 at the time FREDERIC B. HORNE ceases to serve as a Trustee hereunder have failed to serve as Trustees hereunder or have served as Trustees hereunder and thereafter ceased to so serve, an individual who shall be designated by TIMOTHY P. HORNE shall become and serve as a co-Trustee with TIMOTHY P. HORNE (and should such individual cease to serve, TIMOTHY P. HORNE shall designate in the same manner such successive individuals to serve) for the sole purposes of voting with TIMOTHY P. HORNE and making any withdrawal decisions for so long (and only so long) as TIMOTHY P. HORNE shall serve as a Trustee hereunder. In the event TIMOTHY P. HORNE shall cease to serve as a Trustee hereunder while FREDERIC B. HORNE is serving as a Trustee hereunder, then FREDERIC B. HORNE and any individual designated pursuant to the following paragraph of this

Section 11 shall serve as co-Trustees hereunder; provided, however, that FREDERIC B. HORNE shall have the Determination Power for so long as he serves as a Trustee hereunder in such circumstances to the extent provided in Section 10; and provided further, however, that (i) if no designation of a successor Trustee pursuant to the following paragraph of this Section 11 shall be in effect at the time TIMOTHY P. HORNE ceases to serve as a Trustee hereunder, or (ii) if all successor Trustees designated pursuant to the following paragraph of this Section 11 at the time TIMOTHY P. HORNE ceases to serve as a Trustee hereunder have failed to serve as Trustees hereunder or have served as Trustees hereunder and thereafter ceased to so serve, an individual who shall be designated by FREDERIC B. HORNE (and who is named as an executor under the will of TIMOTHY P. HORNE to the extent any such executor is living and willing and able to serve), shall become and serve as a co-Trustee with FREDERIC B. HORNE (and should such individual cease to serve, FREDERIC B. HORNE shall designate in the same manner such successive individuals to serve) for the sole purposes of voting with FREDERIC B. HORNE and making any withdrawal decisions, in each case with respect to TPH Shares as contemplated in subclauses (B) and (C) of clause (iv) of Section 10, for so long (and only so long) as FREDERIC B. HORNE shall serve as a Trustee hereunder. In the event that both TIMOTHY P. HORNE and FREDERIC B. HORNE cease to serve as Trustees hereunder, then first any individual designated as the Primary Designee (as defined below) and then (in the event the Primary Designee shall fail or cease to serve as a Trustee hereunder) any person designated as the Secondary Designee (as defined below) pursuant to the following paragraph of this

Section 11 shall continue serving as or shall become (as applicable) the sole Trustee hereunder. In the event any Primary Designee named pursuant to the following paragraph shall fail or cease to serve as a Trustee hereunder, then any Secondary Designee named pursuant to the following paragraph shall become a Trustee hereunder, serving as a co-Trustee as provided herein (subject to the provisions of clauses (ii), (iii) and (iv) of Section 10) in the event the Primary Designee fails or ceases to serve as a Trustee hereunder while FREDERIC B. HORNE or TIMOTHY P. HORNE (as applicable) is also serving as a Trustee hereunder and otherwise serving as the sole Trustee hereunder. After each of TIMOTHY P. HORNE, FREDERIC B. HORNE and all individuals designated pursuant to the following paragraph of this Section 11 shall cease to serve as Trustees hereunder, or if for any other reason there are no Trustees serving hereunder, then (and only then) a successor Trustee or Trustees shall be promptly appointed by registered holders of a majority in interest of the voting trust certificates then outstanding. Persons designated as Trustees hereunder may be granted and may hold the Determination Power only in accordance with Section 10 hereof."

5. The second paragraph of Section 11 of the Voting Trust Agreement is hereby amended and restated in its entirety to read as follows:

"At any time GEORGE B. HORNE and TIMOTHY P. HORNE, if then living and not then subject to any incapacity (as hereinafter defined), may, by written instrument signed by each of them and filed with the registered office of the Company in Delaware, designate (i) an individual to serve as co-Trustee with TIMOTHY P. HORNE and/or to succeed TIMOTHY P. HORNE as sole Trustee hereunder should TIMOTHY P. HORNE cease to serve as a Trustee hereunder, in each case as contemplated by Section 10 and the preceding paragraph (the "Primary Designee"), and (ii) if they so elect, an additional individual to succeed the Primary Designee in performing the foregoing functions as Trustee hereunder (the "Secondary Designee") in the event that the Primary Designee shall fail or cease to serve as a Trustee hereunder. Any such designation shall also be revocable by a written instrument signed by each of GEORGE B. HORNE and TIMOTHY P. HORNE (if then living and not then subject to any incapacity (as hereinafter defined)) and filed with the registered office of the Company in Delaware at any time prior to the time at which a designated successor becomes a Trustee hereunder. It is understood that the provisions of this Section 11 are intended to permit the designation of two individuals to act as co-Trustees with TIMOTHY P. HORNE under certain circumstances and to follow TIMOTHY P. HORNE successively in the line of succession as Trustees hereunder, and while designations of particular individuals may be revoked (such as in the case of a designee's death, for example), no more than two individuals may become Trustees hereunder pursuant to a designation as a Primary or Secondary Designee absent an amendment to this Agreement, it being understood that in the event a Secondary Designee becomes a Trustee hereunder because a Primary Designee shall have failed to serve as a Trustee hereunder, then the individuals so empowered in this paragraph may thereafter name a new Secondary Designee in accordance with the terms hereof. In the event either GEORGE B. HORNE or TIMOTHY P. HORNE dies or becomes subject to any incapacity (as hereinafter defined), then the power to appoint or revoke the appointment of Primary and/or Secondary Designees may be exercised by such of these individuals who are then living and not then subject to any incapacity (as hereinafter defined). The power designated in this paragraph is personal to, and may be exercised only by, the individuals named in this paragraph in accordance with the terms hereof. The provisions of this paragraph are intended to be permissive and shall authorize, but not require, the appointment of a Primary or Secondary Designee."

6. The effective date of this Amendment shall be the date first set forth above.

7. As amended by this Amendment, the Voting Trust Agreement is in all respects ratified and confirmed, and as so amended by this Amendment the Voting Trust Agreement shall be read, taken and construed as one and the same instrument.

8. This Amendment may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

9. This Amendment shall be governed in accordance with the laws of the State of Delaware without regard to principles of conflicts of law.

[END OF TEXT]

The parties hereto have executed this Amendment to the Voting Trust Agreement in one or more counterparts under seal as of the date first set forth above.

WATTS INDUSTRIES, INC.

By: /s/Timothy P. Horne
 Timothy P. Horne, Chairman

 /s/Noah T. Herndon
Noah T. Herndon, as Trustee

 /s/Timothy P. Horne
Timothy P. Horne, as Trustee

 /s/Frederic B. Horne
Frederic B. Horne, as Trustee of the
Peter W. Horne Trust--1976

Exhibit 9.2

**AMENDMENT
TO
THE GEORGE B. HORNE VOTING TRUST AGREEMENT--1997**

AMENDMENT dated as of the 30th day of October, 1997 by and among Timothy P. Horne, as trustee (the "Trustee") under the George B. Horne Voting Trust Agreement--1997 (the "Voting Trust Agreement"), and Timothy P. Horne, individually, Timothy P. Horne, as Trustee of the George B. Horne Trust - 1982, as currently republished, Timothy P. Horne, as Trustee of the Daniel W. Horne Trust - 1980, Timothy P. Horne, as Trustee of the Deborah Horne Trust - 1976, Timothy P. Horne, as Trustee of the George B. Horne Grandchildren's Trust - 1995 F/B/O Tara V. Horne and Timothy P. Horne, as Trustee of the George B. Horne Grandchildren's Trust - 1995 F/B/O Tiffany Horne (collectively, the "Holders").

WHEREAS, the Trustee and the Holders, as the registered holders of greater than a majority of voting trust certificates outstanding under the Voting Trust Agreement, desire to amend the Voting Trust Agreement to provide that voting trust certificates may not be transferred without the written consent of all of the Trustees under the Voting Trust Agreement.

NOW, THEREFORE, the parties hereto do hereby agree as follows:

1. The first paragraph of Section 4 of the Voting Trust Agreement is hereby amended and restated in its entirety to read as follows:

"4. Transfer of Certificates; Restrictions. The transfer of any voting trust certificate (including without limitation any sale, assignment, donation, pledge, encumbrance, grant of a security interest, hypothecation or other transfer or disposition) (a) shall be effected only with the written consent of all of the Trustees then serving hereunder (acting together, or, if all such Trustees do not agree, by the Trustee, if any, having the Determination Power with respect to such transfer under Section 10 hereof) and (b) shall be subject to any restrictions, conditions and other provisions applicable to it or to the stock which it represents, whether imposed by law, specified on the relevant certificate or specified in the Restated Certificate of Incorporation of the Company, as amended (the "Restated Certificate") (provided that any transfer of voting trust certificates without a transfer of the underlying stock held in this voting trust shall in no way affect the voting rights of such underlying stock, consistent with the terms of the Restated Certificate), this Agreement or any other agreement, including without limitation the Stock Restriction Agreement dated as of August 28, 1986, as the same may have been or may hereafter be amended and/or restated, among parties hereto. Any attempted transfer in violation of such restrictions, conditions and other provisions shall be void ab initio and the Trustees shall not register such transfer or recognize the intended transferee as the holder of the voting trust certificate for any purpose. To the extent permitted by law, voting trust certificates shall not be subject to attachment, garnishment, judicial order, levy, execution or similar process, however instituted, for satisfaction of a judgment or otherwise."

2. That portion of Schedule A to the Voting Trust Agreement setting forth the number of shares of Class B Common Stock of the Company held by Timothy P. Horne and George B. Horne as trustees of the George B. Horne Trust--1982, as currently republished (the "GBH Trust"), that are subject to the Voting Trust Agreement is hereby deleted and replaced with Schedule A attached hereto to reflect the deposit of 20,000 shares of Class B Common Stock held by the GBH Trust into the Voting Trust Agreement.

3. The effective date of this Amendment shall be the date first set forth above.

4. As amended by this Amendment, the Voting Trust Agreement is in all respects ratified and confirmed, and as so amended by this Amendment the Voting Trust Agreement shall be read, taken and construed as one and the same instrument.

5. This Amendment may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which so executed shall be deemed to be an original, but all of such counterparts shall together constitute but one and the same instrument.

6. This Amendment shall be governed in accordance with the laws of the State of Delaware without regard to principles of conflicts of law.

[END OF TEXT]

The parties hereto have executed this Amendment to the Voting Trust Agreement in one or more counterparts under seal as of the date first set forth above.

*/s/Timothy P. Horne
Timothy P. Horne, as Trustee*

*/s/Timothy P. Horne
Timothy P. Horne, individually*

*/s/Timothy P. Horne
Timothy P. Horne, as Trustee of the
George B. Horne Trust--1982*

*/s/Timothy P. Horne
Timothy P. Horne, as Trustee of the
Deborah Horne Trust--1976*

*/s/Timothy P. Horne
Timothy P. Horne, as Trustee of the
Daniel W. Horne Trust--1980*

*/s/Timothy P. Horne
Timothy P. Horne, as Trustee of the
Grandchildren's Trust f/b/o
Tara V. Horne*

*/s/Timothy P. Horne
Timothy P. Horne, as Trustee of the
Grandchildren's Trust f/b/o
Tiffany R. Horne*

Acknowledged and Agreed:

*/s/George B. Horne
George B. Horne, as Beneficiary of
the George B. Horne Trust--1982*

SCHEDULE A

Depositor	No. of Shares Subject to Trust	Class B Stock Certificate No.	No. of Shares Not Subject to Trust (if any)
Timothy P. Horne and George B. Horne as trustees of the George B. Horne Trust--1982 as currently republished	2,124,600		0

AMENDMENT TO VOTING TRUST AGREEMENT

WHEREAS, Timothy P. Horne is Trustee under a Voting Trust Agreement dated as of August 26, 1997, such Voting Trust Agreement, being referred to herein as the "Agreement"; and

WHEREAS, Tara V. Horne desires to withdraw 5,000 shares of Class B Common Stock of Watts Industries, Inc., a Delaware corporation.

WHEREAS, the Trustee desires to consent and agree to the above-described transaction.

NOW, THEREFORE, the Trustee hereby does agree as follows:

1. The Trustee consents to the withdrawal of such shares and hereby amends Schedule A to the Agreement by deleting the information set forth opposite Tara V. Horne's name on such Schedule A and replacing it with the following:

SCHEDULE A

Depositor	Number of Shares	Class B Stock Certificate No.
Tara V. Horne	45,000	221

2. Except as hereinabove provided, the Trustee ratifies and confirms the Agreement in all respects.

The Trustee has executed this Amendment to the Agreement as of the 31st day of July, 1998.

Timothy P. Horne, as Trustee

AMENDMENT TO VOTING TRUST AGREEMENT

WHEREAS, Timothy P. Horne is Trustee under a Voting Trust Agreement dated as of August 26, 1997, such Voting Trust Agreement, being referred to herein as

the "Agreement"; and WHEREAS, Tara V. Horne desires to withdraw 5,000 shares of Class B Common Stock of Watts Industries, Inc., a Delaware corporation.

WHEREAS, the Trustee desires to consent and agree to the above-described transaction.

NOW, THEREFORE, the Trustee hereby does agree as follows:

1. The Trustee consents to the withdrawal of such shares and hereby amends Schedule A to the Agreement by deleting the information set forth opposite Tara V. Horne's name on such Schedule A and replacing it with the following:

SCHEDULE A

Depositor	Number of Shares	Class B Stock Certificate No.
Tara V. Horne	40,000	223

2. Except as hereinabove provided, the Trustee ratifies and confirms the Agreement in all respects.

The Trustee has executed this Amendment to the Agreement as of the 31st day of August, 1998.

Timothy P. Horne, as Trustee

DIRECT AND INDIRECT SUBSIDIARIES OF WATTS INDUSTRIES, INC.

AS OF 8/31/98

DOMESTIC:

Watts Finance Company [Delaware]
Watts International Sales Corp. [Massachusetts] Watts Investment Company [Delaware]
Watts Regulator Company [Massachusetts]
Watts Securities Corp. [Massachusetts]
Circle Seal Controls, Inc. [Delaware]
Green Country Castings, Inc. [Oklahoma]
KF Industries, Inc. [Oklahoma]
KF Sales Corp. [Delaware]
Rudolph Labranche, Inc. [New Hampshire]
Leslie Controls, Inc. [New Jersey]
Spence Engineering Company, Inc. [Delaware] Watts Drainage Products, Inc. [Delaware] [formerly Ancon U.S.A.] Anderson-Barrows Metals Corp. [California] Circle Seal Corporation [Delaware] [formerly Jameco Acquisition] Jameco Industries, Inc. [New York]
Webster Valve, Inc. [New Hampshire]
Ames Holdings, Inc. [Delaware]
Ames Company, Inc. [California]
Yolo-Ames Leasing Company, Inc. [California] Hoke, Inc. [New York]
Ajax Screw Machine Co., Inc. [Connecticut] Hoke-International, Ltd. [New York]

INTERNATIONAL:

Watts Industries (Canada) Inc. [Canada]
Watts Investment Company Canada Ltd. [Canada] Telford Valve & Specialties, Inc. [Canada] Woodlawn Holdings Ltd. [Canada]
Hoke Controls, Limited [Canada]
Watts Industries Europe B.V. [The Netherlands] Watts Industries France S.A. [France]
Watts Industries Germany GmbH [Germany]
Hoke Handelsgesellschaft, GmbH [Germany] Hoke Overseas Sales Corp. [U.S. Virgin Islands] Wattsco International [U.S. Virgin Islands]
Watts Ocean BV [The Netherlands]
Watts Eurotherm SA [France]
Watts UK Ltd. [United Kingdom]
Watts G.R.C. SA [Spain]
Watts Interme AG [Switzerland]
Watts Interme GmbH [Austria]
Watts Interme SpA [Italy]
* Interme UK Ltd [United Kingdom] KF Industries Europe BV [The Netherlands] Leslie International V.I. [Virgin Islands] Watts M.T.R GmbH [Germany] Ocean B.V. [The Netherlands] Pibiviesse SpA [Italy] B.V. Philabel [The Netherlands] Watts AG [Switzerland] Watts Ocean NV [Belgian] WIG Armaturen Vertriebs, GmbH [Germany] WSA Heizungs und Sanitartechnik GmbH [Germany] WIC Verwaltungs und Beteiligungs GmbH [Germany] WLI S.r.L. [Italy] [formerly ISI SpA] Watts Londa SpA [Italy] [formerly Watts ISI SpA]

In addition to the foregoing, the Company holds an 80% interest in De Martin Srl [Italy], a 60% interest in Tianjin Tangu Watts Valve Company Limited, a Chinese joint venture, and a 60% interest in Suzhou Watts Valve Co., Ltd., a Chinese joint venture. The Company also holds a 49% interest in Jameco International LLC.

* Dissolution pending

**CONSENT OF KPMG PEAT MARWICK, LLP
INDEPENDENT AUDITORS**

The Board of Directors
Watts Industries, Inc.:

We consent to the incorporation by reference in the Registration Statements pertaining to the 1996 Stock Option Plan (Form S-8 No. 333-32685), 1986 Incentive Stock Option Plan (Post-Effective Amendment No. 1 to Form S-8 No. 33-30377), Nonqualified Stock Option Plan (Form S-8 No. 33-37926), 1991 Non-Employee Directors' Nonqualified Stock Option Plan (Form S-8 No. 33-69422), and Management Stock Purchase Plan (Form S-8 No. 33-64627) of Watts Industries, Inc. of our report dated August 5, 1998, with respect to the consolidated balance sheets of Watts Industries, Inc. and subsidiaries as of June 30, 1998 and 1997, the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the two-year period ended June 30, 1998, and the related schedules of valuation and qualifying accounts as of and for the years ended June 30, 1998 and 1997, which report appears in the June 30, 1998 annual report on Form 10-K of Watts Industries, Inc.

/s/ KPMG Peat Marwick LLP

*Boston, Massachusetts
September 9, 1998*

Consent of Ernst & Young LLP, Independent Auditors

We consent to the incorporation by reference in the Registration Statements (Form S-8 No. 33-32685) pertaining to the Watts Industries, Inc. 1996 Stock Option Plan, (Post Effective Amendment No. 1 to Form S-8 No. 33-30377) pertaining to the 1986 Incentive Stock Option Plan, (Form S-8 No. 33-37926) pertaining to the Nonqualified Stock Option Plan, (Form S-8 No. 33-69422) pertaining to the 1991 Non-Employee Directors' Nonqualified Stock Option Plan of Watts Industries, Inc. and (Form S-8 No. 33-64627) pertaining to the Watts Industries, Inc. Management Stock Purchase Plan of our report dated August 6, 1996, with respect to the 1996 consolidated financial statements and schedule of Watts Industries, Inc. included in the Annual Report (Form 10-K) for the year ended June 30, 1998.

ERNST & YOUNG LLP

Boston, Massachusetts
September 11, 1998

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Watts Industries, Inc.

We have audited the accompanying consolidated statements of operations, stockholders' equity, and cash flows of Watts Industries, Inc. for the year ended June 30, 1996. Our audit also included the financial statement schedule for the year ended June 30, 1996, listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit. We did not audit the financial statements of Watts Industries Europe B.V., a wholly-owned subsidiary, which statements reflect net sales of \$118,700,000 in fiscal year 1996. Those statements and schedule 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 their report.

We conducted our audit 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 audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations, stockholders' equity, and cash flows of Watts Industries, Inc. for the year ended June 30, 1996, in conformity with generally accepted accounting principles. Also, in our opinion, based on our audit and the report of other auditors, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Boston, Massachusetts
August 6, 1996

**CONSENT OF DELOITTE & TOUCHE
INDEPENDENT AUDITORS**

Registeraccountants Kanaalpark 143
Telephone+31(71)5352352 2321 JV Leiden
Telefax +31(71)5352370 P.O. Box 402
2300 AK Leiden
The Netherlands

Date Reference September 11, 1998 P.C. Spaargaren

Independent auditors' consent

We consent to the incorporation by reference in Registration Statements (Post-Effective Amendment No. 1 to Form S-8 No. 33-30377, No. 33-37926, No. 33-69422, No. 33-64627 and No. 333-32685) of Watts Industries, Inc. on Form S-8 of our report dated August 6, 1996 (which expresses an unqualified opinion and indicates that the consolidated/combined financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements for financial statements as included in Part 9, Book 2 of the Netherlands Civil Code), with respect to the consolidated/combined financial statements of Watts Industries Europe B.V. (not presented separately herein) and our report dated August 6, 1996, with respect to the financial statement schedule of Watts Industries Europe B.V. (not presented separately herein), appearing in this Annual Report on Form 10-K of Watts Industries, Inc. for the year ended June 30, 1998.

*/s/ Deloitte & Touche
Registeraccountants*

August 6, 1996 P.C. Spaargaren RA

INDEPENDENT AUDITORS' REPORT

Board of Directors
Watts Industries Europe B.V.

We have audited the financial statements including the consolidated/combined balance sheet of Watts Industries Europe B.V. as of June 30, 1996 and the related consolidated/combined statement of operations for the year ended June 30, 1996 (not separately presented herein) expressed in Dutch Guilders. These consolidated/combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated/combined financial statements based on our audit.

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

In our opinion, the consolidated/combined financial statements of Watts Industries Europe B.V. referred to above present fairly the consolidated/combined financial position of Watts Industries Europe B.V. as of June 30, 1996 and the consolidated/combined results for the year ended June 30, 1996 in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements for financial statements as included in Part 9, Book 2 of the Netherlands Civil Code.

Generally accepted accounting principles in the Netherlands vary in certain significant respects from generally accepted accounting principles in the United States. The application of the latter would have affected the determination of consolidated/combined net earnings in the year ended June 30, 1996 and the determination of stockholders' equity at June 30, 1996 to the extent summarized in Note G to the consolidated/combined financial statements.

*/s/ Deloitte & Touche
Registeraccountants*

August 6, 1996 P.C. Spaargaren RA

INDEPENDENT AUDITORS' REPORT

We have audited the financial statements including the consolidated/combined financial statements of Watts Industries Europe B.V., a wholly owned subsidiary of Watts Industries, Inc. as of June 30, 1996, and for the year ended June 30, 1996, and have issued our report thereon dated August 6, 1996 (which expresses an unqualified opinion and indicates that the consolidated/combined financial statements have been prepared in accordance with accounting principles generally accepted in the Netherlands and comply with the legal requirements for financial statements as included in Part 9, Book 2 of the Netherlands Civil Code). Our audit also included Financial Statement Schedule II of Watts Industries Europe B.V. (not presented separately herein) as of June 30, 1996 which is included in the related schedule of Watts Industries, Inc. in the Annual Report on Form 10-K of Watts Industries, Inc. for the year ended June 30, 1998. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule of Watts Industries Europe B.V. referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

*/s/ Deloitte & Touche
Registeraccountants*

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM JUNE 30, 1998 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUN 30 1998
PERIOD END	JUN 30 1998
CASH	10,124
SECURITIES	590
RECEIVABLES	139,803
ALLOWANCES	8,913
INVENTORY	193,987
CURRENT ASSETS	371,664
PP&E	307,931
DEPRECIATION	146,461
TOTAL ASSETS	665,820
CURRENT LIABILITIES	134,291
BONDS	117,076 ¹
COMMON	2,716
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	371,299
TOTAL LIABILITY AND EQUITY	665,820
SALES	729,966
TOTAL REVENUES	729,966
CGS	475,630
TOTAL COSTS	639,390 ²
OTHER EXPENSES	9,495 ³
LOSS PROVISION	1,774
INTEREST EXPENSE	10,412
INCOME PRETAX	81,081
INCOME TAX	27,712
INCOME CONTINUING	53,369
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	53,369
EPS PRIMARY	1.97
EPS DILUTED	1.95

¹ INCLUDES LONG TERM DEBT AND CURRENT PORTION

² INCLUDES ONLY COST OF GOODS SOLD AND OPERATING EXPENSES.

³ INCLUDES INTEREST EXPENSE AND LOSS PROVISION SHOWN BELOW.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM JUNE 30, 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. THIS SCHEDULE HAS BEEN RESTATED TO REFLECT THE ADOPTION OF FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENT NO 128, " EARNINGS PER SHARE".

MULTIPLIER: 1,000

PERIOD TYPE	12 MOS
FISCAL YEAR END	JUN 30 1997
PERIOD END	JUN 30 1997
CASH	13,904
SECURITIES	518
RECEIVABLES	129,294
ALLOWANCES	7,945
INVENTORY	171,217
CURRENT ASSETS	345,592
PP&E	281,231
DEPRECIATION	128,537
TOTAL ASSETS	622,083
CURRENT LIABILITIES	120,890
BONDS	128,359 ¹
COMMON	2,701
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	330,938
TOTAL LIABILITY AND EQUITY	622,083
SALES	720,340
TOTAL REVENUES	720,340
CGS	474,948
TOTAL COSTS	633,932 ²
OTHER EXPENSES	10,821 ³
LOSS PROVISION	891
INTEREST EXPENSE	10,493
INCOME PRETAX	75,587
INCOME TAX	27,127
INCOME CONTINUING	48,460
DISCONTINUED	79
EXTRAORDINARY	3,208
CHANGES	0
NET INCOME	51,747
EPS PRIMARY	1.90
EPS DILUTED	1.89

¹ INCLUDES LONG TERM DEBT AND CURRENT PORTION

² INCLUDES ONLY COST OF GOODS SOLD AND OPERATING EXPENSES.

³ INCLUDES INTEREST EXPENSE AND LOSS PROVISION SHOWN BELOW.

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