WATTS WATER TECHNOLOGIES INC

FORM 10-Q
(Quarterly Report)

Filed 2/6/1998 For Period Ending 12/31/1997

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended December 31, 1997

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	04-2916536
(State of incorporation)	(I.R.S. Employer Identification No.)
815 Chestnut Street, North Andover, MA	01845
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(978) 688-1811

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No

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

Class	Outstanding at January 31, 1998

Class A Common, $.10 par value 16,398,527

Class B Common, $.10 par value 10,703,427

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	(Unaudited) Dec. 31, 1997	(Audited) June 30, 1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,540	$ 13,904
Short-term investments	1,700	518
Trade accounts receivable, less allowance for doubtful accounts of $8,762 at December 31, 1997 and $7,945 at June 30, 1997	131,303	121,349
Inventories:		
Raw materials	72,304	64,261
Work in process	30,980	26,030
Finished goods	78,286	80,926
Total Inventories	181,570	171,217
Prepaid expenses and other assets	16,385	13,087
Deferred income taxes	22,250	22,480
Net assets held for sale	2,046	3,037
Total Current Assets	367,794	345,592
OTHER ASSETS:		
Goodwill, net of accumulated amortization of $14,939 at December 31, 1997 and $13,484 at June 30, 1997	116,273	110,928
Other	13,116	12,869
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment, at cost	292,037	281,231
Accumulated depreciation	(137,282)	(128,537)
Property, plant and equipment, net	154,755	152,694
TOTAL ASSETS	$ 651,938	$ 622,083

LIABILITIES AND STOCKHOLDERS' EQUITY
CURRENT LIABILITIES:

Accounts payable	$ 50,558	$ 48,896
Accrued expenses and other liabilities	59,261	53,738
Accrued compensation and benefits	12,215	15,834
Current portion of long-term debt	2,128	2,422
Total Current Liabilities	124,162	120,890
LONG-TERM DEBT, NET OF CURRENT PORTION	131,082	125,937
DEFERRED INCOME TAXES	16,641	16,675
OTHER NONCURRENT LIABILITIES	12,587	13,796
MINORITY INTEREST	11,738	11,146
STOCKHOLDERS' EQUITY:		
Preferred Stock,$.10 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Class A Common Stock, $.10 par value; 1 vote per share; 80,000,000 shares authorized; issued and outstanding: 16,009,627 shares at December 31, 1997 and 15,797,460 shares at June 30, 1997	1,601	1,580
Class B Common Stock, $.10 par value; 10 votes per share; 25,000,000 shares authorized; issued and outstanding: 11,059,127 at December 31, 1997 and 11,215,627 shares at June 30, 1997	1,106	1,121
Additional paid-in capital	45,780	44,643
Retained earnings	316,206	293,170
Cumulative translation adjustment	(8,965)	(6,875)
Total Stockholders' Equity	355,728	333,639
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 651,938	$ 622,083

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share information)

(Unaudited)

	Three Months Ended	
	Dec. 31, 1997	Dec. 31, 1996
Net sales	$ 179,198	$ 174,220
Cost of goods sold	115,490	114,068
GROSS PROFIT	63,708	60,152
Selling, general & administrative expenses	40,708	39,014
OPERATING INCOME	23,000	21,138
Other (income) expense:		
Interest income	(311)	(173)
Interest expense	2,434	2,469
Other, net	263	262
	2,386	2,558
INCOME BEFORE INCOME TAXES	20,614	18,580
Provision for income taxes	7,005	6,830
NET INCOME	$ 13,609	$ 11,750
Income per common share :		
Basic	$ 0.50	$ 0.43
Diluted	$ 0.50	$ 0.43
Dividends per common share	$ 0.0775	$ 0.0700

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share information)

(Unaudited)

	Six Months Ended	
	Dec. 31, 1997	Dec. 31, 1996
Net sales	$ 358,658	$ 350,228
Cost of goods sold	231,043	229,720
GROSS PROFIT	127,615	120,508
Selling, general & administrative expenses	80,740	77,104
OPERATING INCOME	46,875	43,404
Other (income) expense:		
Interest income	(584)	(272)
Interest expense	4,976	5,223
Other, net	961	451
	5,353	5,402
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	41,522	38,002
Provision for income taxes	14,293	13,906
INCOME FROM CONTINUING OPERATIONS	27,229	24,096
Income from discontinued operations, net of taxes	-	79
Gain on disposal of discontinued operations, net of taxes	-	3,208
NET INCOME	$ 27,229	$ 27,383
Income per common share :		
Basic		
Continuing operations	$ 1.01	$ 0.88
Discontinued operations	-	-
Gain on disposal of discontinued operations	-	0.12
NET INCOME	$ 1.01	$ 1.00
Diluted		
Continuing operations	$ 1.00	$ 0.88
Discontinued operations	-	-
Gain on disposal of discontinued operations	-	0.12
NET INCOME	$ 1.00	$ 1.00
Dividends per common share	$ 0.1550	$ 0.1400

See accompanying notes to condensed consolidated financial statements.

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

(Unaudited)

	Three Months Ended	
	Dec. 31, 1997	Dec. 31, 1996
OPERATING ACTIVITIES		
Income from continuing operations	$ 27,229	$ 24,096
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:		
Restructuring payments	(1,091)	(1,830)
Depreciation and amortization	11,417	10,266
Deferred income taxes	201	853
Gain on disposal of assets	(593)	(98)
Equity in undistributed earnings of affiliates	(53)	-
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(11,837)	(16,213)
Inventories	(12,375)	(1,241)
Prepaid expenses and other assets	(3,311)	(2,696)
Accounts payable, accrued expenses and other liabilities	6,527	(7,971)

Net cash provided by continuing operations	16,114	5,166
Net cash provided by discontinued operations	-	653
NET CASH PROVIDED BY OPERATING ACTIVITIES	16,114	5,819
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(15,692)	(13,159)
Proceeds from sale of assets	6,196	248
Increase in other assets	(962)	(789)
Discontinued Operations:		
Additions to property, plant and equipment	-	(142)
Proceeds from disposal of discontinued operations	-	90,581
Business acquisitions, net of cash acquired	(7,848)	(862)
Net changes in short-term investments	(1,213)	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(19,519)	75,877
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	51,064	46,879
Payments of long-term debt	(46,116)	(98,433)
Proceeds from exercise of stock options	1,143	99
Dividends paid	(4,193)	(3,855)
Purchase of treasury stock	-	(10,413)
Purchase and retirement of common stock	-	(12,657)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,898	(78,380)
Effect of exchange rate changes on cash and cash equivalents	143	914
CHANGE IN CASH AND CASH EQUIVALENTS	(1,364)	4,230
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,904	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 12,540	$ 4,230

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all necessary adjustments, consisting only of adjustments of a normal recurring nature, to present fairly Watts Industries, Inc.'s Condensed Consolidated Balance Sheet as of December 31, 1997, its Condensed Consolidated Statements of Operations for the three and six months ended December 31, 1997 and 1996, and its condensed Consolidated Statements of Cash Flows for the six months ended December 31, 1997 and 1996.

The balance sheet at June 30, 1997 has been derived from the audited financial statements at that date. The accounting policies followed by the Company are described in the June 30, 1997 financial statements which are contained in the Company's 1997 Annual Report. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the 1997 Annual Report to stockholders.

2. During September 1997, a wholly owned subsidiary of the Company purchased the Orion Fittings Division of Kelstan Plastic Products, Ltd. The Orion Fittings Division has manufactured corrosion resistant polyolefin piping systems for laboratory drainage and high purity process installations since 1963. The product line includes pipe, fittings, sinks, neutralizing tanks, pH alarm and monitoring systems and sediment interceptors. Sales have been concentrated in the Canadian market and were approximately $584,000 for the 12 months ended August 31, 1997.

During December 1997, a wholly owned subsidiary of the Company purchased the pneumatic valve and motion switch business of Aerodyne Controls Corporation. The Aerodyne product line consists of high quality valve components for medical, analytical, military and aerospace applications. Sales for the twelve months ended October 1997 were approximately $7,000,000.

The aggregate purchase price for these acquisitions was $7,848,000.

3. During fiscal year ended June 30, 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. and the relocation of Jameco Industries, Inc. from Wyandanch, New York to the Company's existing Spindale, North Carolina manufacturing facility. In connection with this restructuring plan and during the year ended June 30, 1996, the Company recorded a $25,415,000 restructuring charge for related severance costs, plant closure costs and asset write-downs.

Cash payments for accrued employee severance and other plant closure costs were $1,091,000 during the six months ended December 31, 1997 and the Company's remaining accrued restructuring liability was $2,757,000 at December 31, 1997. It is expected that the restructuring initiatives will be substantially complete by June 30, 1998.

Since commencement of the restructuring plan, there has been a related net reduction of 218 employees. As of December 31, 1997, there are approximately 80 additional restructuring related terminations that are expected to occur.

4. On September 4, 1996, the Company sold its Municipal Water Group of businesses. Sales revenue from these businesses amounted to $14,027,000 during the period between July 1, 1996 and September 4, 1996. This revenue, net of all related expense including income taxes, has been classified as income from discontinued operations in the accompanying statement of operations for the six months ended December 31, 1996.

5. During the quarter ended December 31, 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128 Earnings per Share. SFAS 128 required the Company to change the method formerly used to compute earnings per share and to restate all prior periods presented. The requirements for calculating basic earnings per share excludes the dilutive effect of securities. Diluted earnings per share assumes the conversion of all dilutive securities. The following table sets forth the reconciliation of the calculation per SFAS 128:

For the Three Months Ended December 31, 1997

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS Net Income	$13,609,000	27,059,430	$.50
Effect of Dilutive Securities - primarily stock options	-	363,787	
Diluted EPS	$13,609,000	27,423,217	$.50

For the Six Months Ended December 31, 1997

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS Net Income	$27,229,000	27,041,929	$1.01
Effect of Dilutive Securities - primarily stock options	-	319,289	
Diluted EPS	$27,229,000	27,361,218	$1.00

At December 31, 1997, there were no outstanding options to purchase shares of common stock with exercise prices greater than the average market price of the common shares during the three and six month period then ended.

For the Three Months Ended December 31, 1996

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS Net Income	$11,750,000	27,044,872	$.43
Effect of Dilutive Securities - primarily stock options	-	168,324	
Diluted EPS	$11,750,000	27,213,196	$.43

For the Six Months Ended December 31, 1996

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS Income from Continuing Operations	$24,096,000	27,318,592	$.88
Income from Discontinued Operations*	79,000		-
Gain on Disposal of Discontinued Operations*	3,208,000		.12
Net Income	$27,383,000		$1.00
Effect of Dilutive			

Securities - primarily stock options	-	117,298	
Diluted EPS	$27,383,000	27,435,890	$1.00

* Net of Income Taxes

Options to purchase 582,470 shares and 623,896 shares of common stock at prices ranging from $19.80 to $26.13 were outstanding during the three and six month periods ended December 31, 1996, respectively. These options were not included in the related computations of diluted EPS since the exercise price of the options was greater than the average market price of the common shares during those respective periods.

6. During June 1997, the Company entered into a joint venture agreement with the sales agent who markets imported vitreous china and faucets into the do-it-yourself ("DIY") market. Prior to the July 1997 commencement of operations by the joint venture, the related sales were recorded as part of the Company's Jameco business. The Company now has a 49% minority interest in the new joint venture and reports activities on the equity basis, thus excluding these sales from the Company's consolidated revenues. Revenues in fiscal 1997 were $13,415,000 for this business.

During December 1997, the Company sold a small Italian valve manufacturing division which was not part of the Company's core business. The division's sales for the three and six month periods ended December 31, 1997 were $2,074,000 and $3,386,000, respectively.

7. Information in "Note (12) Contingencies and Environmental Remediation" set forth in the Registrant's Form 10-K is incorporated herein by reference. Also see Part II, Item 1.

Item 2. WATTS INDUSTRIES, INC. AND SUBSIDIARIES

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

Results of Operations
Three Months Ended December 31, 1997 Compared to Three Months Ended December 31, 1996

Net sales increased $4,978,000 (2.9%) to $179,198,000. An analysis of this change in net sales is as follows:

Internal Growth	$ 4,836,000	2.8%
Acquisitions/New Joint Ventures	8,505,000	4.9%
Jameco Sales now through Joint Venture	(2,427,000)	(1.4%)
Foreign Exchange Rate Effect	(5,936,000)	(3.4%)
Total Increase	$ 4,978,000	2.9%

The increase in net sales from internal growth is primarily attributable to increased unit shipments in North America of oil and gas valves and increased unit shipments in Europe of plumbing and heating valves. The increased sales due to acquisitions is primarily attributable to the January 1997 acquisition of Ames Co., Inc. ("Ames") located in Woodland, California. Last year's sales included $2,427,000 for a segment of the Jameco business for imported vitreous china and faucets in which the Company now has a 49% minority interest, thereby eliminating these sales from current year results. The unfavorable effect that changes in foreign exchange rates had on 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.

During December 1997, the Company sold a small Italian valve manufacturing division which was not part of the Company's core business. The division's sales for the three and six month periods ended December 31, 1997 were $2,074,000 and $3,386,000, respectively.

Gross profit increased $3,556,000 (5.9%) and increased as a percentage of net sales from 34.5% to 35.6%. This percentage increase is primarily attributable to improved gross margins for domestic plumbing and heating valves and improved gross margins for oil and gas valves. The gross margin on domestic plumbing and heating valves improved primarily due to the inclusion of Ames. The gross margin on oil and gas valves improved due to increased sales volumes and factory efficiencies. 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 $1,694,000 (4.3%) to $40,708,000. This increase is primarily attributable to the inclusion of the expenses of Ames and increased variable selling expenses from certain divisions. This increase was partially offset by the impact of foreign exchange rate changes.

Other nonoperating expense increased by $1,000 (.4%) to $263,000 for the three months ended December 31, 1997. Minority interest expense charges, resulting from the improved operating results of the two Chinese joint ventures, and higher foreign exchange settlement expenses were recognized during the period. Increased charges were offset by gains recognized on the sale of a Canadian manufacturing facility and a small Italian valve manufacturing division.

The decrease in the effective tax rate from 36.76% to 33.98% was primarily attributable to the implementation of tax planning strategies intended to reduce income tax expense.

Net income increased $1,859,000 (15.8%) to $13,609,000.

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 net income for the quarter ended of approximately $500,000.

The weighted average number of common shares outstanding for the quarter ended December 31, 1997 for basic and diluted earnings per share was 27,059,430 and 27,423,217 respectively, compared to 27,044,872 and 27,213,196 respectively for the quarter ended December 31, 1996. Basic and diluted earnings per share from continuing operations were $.50 for the quarter ended December 31, 1997 compared to $.43 per share for the quarter ended December 31, 1996.

During the quarter ended December 31, 1997, the company adopted Statement of Financial Accounting Standards (SFAS) No. 128 Earnings per Share. SFAS 128 required the Company to change the method formerly used to compute earnings per share and to restate all prior periods presented. The impact of the implementation of the new requirements is immaterial.

Results of Operations
Six Months Ended December 31, 1997 Compared to Six Months Ended December 31, 1996

Net sales from continuing operations increased $8,430,000 (2.4%) to $358,658,000. An analysis of this change in net sales is as follows:

Internal Growth	$ 7,885,000	2.2%
Acquisitions/New Joint Ventures	18,849,000	5.4%
Jameco Sales now through Joint Venture	(6,261,000)	(1.8%)
Foreign Exchange Rate Effect	(12,043,000)	(3.4%)
Total Increase	$ 8,430,000	2.4%

The increase in net sales from internal growth is primarily attributable to increased unit shipments in North America of oil and gas valves and increased unit shipments in Europe of plumbing and heating valves. The increased sales due to acquisitions is primarily attributable to the inclusion of the sales of Ames. Last year's sales included $6,261,000 for a segment of the Jameco business for imported vitreous china and faucets in which the Company now has a 49% minority interest, thereby eliminating these sales from current year results. The unfavorable effect that changes in foreign exchange rates had on 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 $7,107,000 (5.9%) and increased as a percentage of net sales from 34.4% to 35.6%. This percentage increase is primarily attributable to improved gross margins for oil and gas valves due to increased sales volume and factory efficiencies as well as the inclusion of Ames. 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 $3,636,000 (4.7%) to $80,740,000. This increase is primarily attributable to the inclusion of the expenses of Ames and increased variable selling expenses from certain divisions. This increase was partially offset by the impact of foreign exchange rate changes.

Other nonoperating expense increased by $510,000 (113%) to $961,000 for the six months ended December 31, 1997. Minority interest expense charges, resulting from the improved operating results of the two Chinese joint ventures, and higher foreign exchange settlement expenses were recognized during this period. Increased charges were offset by gains recognized on the sale of a Canadian manufacturing facility and a small Italian valve manufacturing division.

The effective tax rate for continuing operations decreased from 36.59% to 34.42% primarily due to the implementation of tax planning strategies intended to reduce income tax expense.

Income from continuing operations increased $3,133,000 (13.0%) to $27,229,000.

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 of approximately $1,000,000.

The weighted average number of common shares outstanding for the six months ended December 31, 1997 for basic and diluted earnings per share was 27,041,929 and 27,361,218, respectively, compared to 27,318,592 and 27,435,890, respectively, for the six months ended December 31, 1996. Basic and diluted earnings per share from continuing operations were $1.01 and $1.00 respectively for the six months ended December 31, 1997 compared to $.88 per share for the six months ended December 31, 1996.

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 periods ended September 30, 1996 and December 31, 1996.

Liquidity and Capital Resources

During the six-month period ended December 31, 1997, the Company generated $16,114,000 in cash flow from operations, which was principally used to fund capital expenditures of $15,692,000. 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 1998 is $29,500,000.

During the quarter ended December 31, 1997 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 (ISI) which was not part of the Company's core business. The proceeds for these two transactions totaled $6,050,000.

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. The aggregate purchase price was approximately $7,162,000.

The Company has available an unsecured $125,000,000 line of credit which expires on August 31, 1999. The Company's intent is 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 December 31, 1997, $35,000,000 was borrowed under this line of credit. Working capital was $243,632,000 at December 31, 1997 compared to $224,702,000 at June 30, 1997.

The ratio of current assets to current liabilities was 3.0 to 1 at December 31, 1997 compared to 2.9 to 1 at June 30, 1997. Cash and short-term investments were $14,240,000 at December 31, 1997 compared to $14,422,000 at June 30, 1997. Debt as a percentage of total capital employed was 27.2% at December 31, 1997 compared to 27.8% at June 30, 1997. At December 31, 1997, the Company was in compliance with all covenants related to its existing debt.

The Company from time to time is involved with environmental proceedings and incurs costs on an ongoing basis related to environmental matters. The Company currently anticipates that it will not incur significant expenditures in fiscal 1998 in connection with any of these environmentally contaminated sites.

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.

Part II. Other Information

Item 1. Legal Proceedings

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.

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 only to assume maintenance of this site in an effort to reduce future costs. The Company and the remaining PRPs have also received a formal demand from the U.S. Environmental Protection Agency to recover approximately $17 million expended to date in the remediation of this site. The EPA has filed suit against certain of the PRPs, and the Company has been named a third-party defendant in this litigation.

Based on facts presently known to it, the Company does not believe that the outcome of these proceedings will have a material adverse effect on its financial condition. The Company has established balance sheet accruals which it currently believes are adequate in light of the 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.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of Stockholders of the Company was held on October 21, 1997.

(c) The results of the voting on the proposals considered at the Annual Meeting of Stockholders are as follows:

1. Election of Directors

Timothy P. Horne, David A. Bloss, Sr., Kenneth J. McAvoy, Noah T. Herndon, Wendy E. Lane, Gordon W. Moran and Daniel J. Murphy were each elected as a Director of the Company for a term expiring at the next Annual Meeting of Stockholders.

The voting results were as follows:

Mr. T. Horne	125,067,594 votes FOR	54,850 votes WITHHELD
Mr. D. Bloss	125,067,989 votes FOR	54,455 votes WITHHELD
Mr. K. McAvoy	125,067,789 votes FOR	54,655 votes WITHHELD
Mr. N. Herndon	125,065,287 votes FOR	57,157 votes WITHHELD
Ms. W. Lane	125,065,524 votes FOR	56,920 votes WITHHELD
Mr. G. Moran	125,066,864 votes FOR	55,580 votes WITHHELD
Mr. D. Murphy	125,066,864 votes FOR	55,580 votes WITHHELD

2. Ratification of Independent Auditors

The selection of KPMG Peat Marwick LLP as the new and sole independent auditors of the Company for the current fiscal year was ratified and the voting results were as follows:

125,104,050 votes FOR 4,472 votes WITHHELD 13,922 votes ABSTAINED and 0 Broker Non-votes

Item 6. Exhibits and Reports on Form 8-K

(a) The exhibits are furnished elsewhere in this report.
(b) There were no reports filed on Form 8-K for the quarter ended December 31, 1997.

SIGNATURES

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

WATTS INDUSTRIES,INC.

Date: February 6, 1998 *By: /s/ Timothy P. Horne*
Timothy P. Horne
Chairman and
Chief Executive Officer

Date: February 6, 1998 *By: /s/ Kenneth J. McAvoy*
Kenneth J. McAvoy
Chief Financial Officer and
Treasurer

EXHIBIT INDEX

Listed and indexed below are all Exhibits filed as part of this report.

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as amended. (1)
3.2	Amended and Restated By-Laws. (2)
11	Computation of earnings per share (3)
27	Financial Data Schedule*

(1) Incorporated by reference to the relevant exhibit to the Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 1995.

(2) Incorporated by reference to the relevant exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 15, 1992.

(3) Incorporated by reference to the Notes to Condensed Consolidated Financial Statements, Note 5, of this Report.

*Filed herewith.

WARNING: THE EDGAR SYSTEM ENCOUNTERED ERROR(S) WHILE PROCESSING THIS SCHEDULE.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM DECEMBER 31, 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	6 MOS	
FISCAL YEAR END	JUN 30 1998	
PERIOD END	DEC 31 1997	
CASH	12,540	
SECURITIES	1,700	
RECEIVABLES	140,065	
ALLOWANCES	8,762	
INVENTORY	181,570	
CURRENT ASSETS	367,794	
PP&E	292,037	
DEPRECIATION	137,282	
TOTAL ASSETS	651,938	
CURRENT LIABILITIES	124,162	
BONDS	133,210	[1]
COMMON	2,707	
PREFERRED MANDATORY	0	
PREFERRED	0	
OTHER SE	353,021	
TOTAL LIABILITY AND EQUITY	651,938	
SALES	358,658	
TOTAL REVENUES	358,658	
CGS	231,043	
TOTAL COSTS	311,783	[2]
OTHER EXPENSES	5,353	[3]
LOSS PROVISION	962	
INTEREST EXPENSE	4,976	
INCOME PRETAX	41,522	
INCOME TAX	14,293	
INCOME CONTINUING	27,229	
DISCONTINUED	0	
EXTRAORDINARY	0	
CHANGES	0	
NET INCOME	27,229	
EPS BASIC	$1.01	
EPS DILUTED	$1.00	

[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.

End of Filing