

QUARTERLY REPORT UNDER SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant To Section 13 or 15(d)
of the Securities Exchange Act of 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1995

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 1-5581

I.R.S. Employer Identification Number 59-0778222

WATSCO, INC.
(a Florida Corporation)
2665 South Bayshore Drive, Suite 901
Coconut Grove, Florida 33133
Telephone: (305) 858-0828

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 last practicable date (includes the effects of a 3-for-2 stock split declared for both classes of common stock payable on May 15, 1995 to shareholders of record as of April 28, 1995): 4,682,468 shares (3,121,762 shares prior to the stock split) of the Company's Common Stock (\$.50 par value) and 1,471,573 shares (981,135 shares prior to the stock split) of the Company's Class B Common Stock (\$.50 par value) were outstanding as of April 30, 1995.

1 of 11

PART I. FINANCIAL INFORMATION
WATSCO, INC.
CONSOLIDATED BALANCE SHEETS
March 31, 1995 and December 31, 1994
(In \$000s)

	March 31, 1995 ----- (Unaudited)	December 31, 1994 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,829	\$ 1,744
Marketable securities	981	3,227
Accounts receivable, net	37,783	34,811
Inventories	64,851	49,259
Other current assets	4,861	4,608
	-----	-----
Total current assets	110,305	93,649

Property, plant and equipment, net	9,595	8,829
Intangible assets, net	14,698	13,164
Other assets	3,885	4,022
	-----	-----
	\$138,483	\$119,664
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Current portion of long-term obligations	\$ 1,729	\$ 1,781
Borrowings under revolving credit agreements	46,250	32,034
Accounts payable	16,962	13,108
Accrued liabilities	6,193	6,631
	-----	-----
Total current liabilities	71,134	53,554

Long-term obligations:

Bank and other debt	3,228	2,719
Subordinated notes	2,500	2,500
Convertible subordinated debentures	1,505	1,505
	-----	-----
	7,233	6,724

Deferred income taxes	638	713
-----------------------	-----	-----

Minority interests	12,051	11,857
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Shareholders' equity:

Common Stock, \$.50 par value	1,553	1,553
Class B Common Stock, \$.50 par value	498	498
Paid-in capital	18,945	18,936
Retained earnings	26,431	25,829
	-----	-----
Total shareholders' equity	47,427	46,816

	\$138,483	\$119,664
	=====	=====

See accompanying notes to consolidated financial statements.

2 of 11

WATSCO, INC.
CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
Three Months Ended March 31, 1995 and 1994
(In \$000s except per share amounts)
(Unaudited)

	1995	1994
	-----	-----
Revenues:		
Net sales	\$53,194	\$48,536
Royalty and service fees	7,127	6,716
	-----	-----
Total revenues	60,321	55,252
	-----	-----
Costs and expenses:		
Cost of sales	40,103	37,081
Direct service expenses	5,483	4,953
Selling, general and administrative	12,097	11,172
	-----	-----
Total costs and expenses	57,683	53,206
	-----	-----
Operating income	2,638	2,046
Other income (expense):		
Investment income, net	63	37
Interest expense	(911)	(677)
	-----	-----

	(848)	(640)
	-----	-----
Income before income taxes and minority interests	1,790	1,406
Income taxes	(692)	(533)
Minority interests	(197)	(183)
	-----	-----
Net income	901	690
Retained earnings at beginning of period	25,829	21,234
Common stock cash dividends	(267)	(244)
Dividends on preferred stock of subsidiary	(32)	(32)
	-----	-----
Retained earnings at end of period	\$26,431	\$21,648
	=====	=====
Earnings per share:		
Primary	\$.14	\$.11
	=====	=====
Fully diluted	\$.13	\$.11
	=====	=====
Weighted average shares and equivalent shares used to calculate:		
Primary earnings per share	6,412	6,229
	=====	=====
Fully diluted earnings per share	6,720	6,530
	=====	=====

See accompanying notes to consolidated financial statements.

3 of 11

WATSCO, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three Months Ended March 31, 1995 and 1994
(In \$000s)
(Unaudited)

	1995	1994
	-----	-----
Cash flows from operating activities:		
Net income	\$ 901	\$ 690
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	623	522
Deferred income tax credit	(75)	(95)
Minority interests, net of dividends paid	197	(550)
Change in operating assets and liabilities, net of effects from acquisitions		
Accounts receivable	(23)	(1,419)
Inventories	(10,734)	(6,666)
Accounts payable and accrued liabilities	2,492	(1,579)
Other, net	79	104
	-----	-----
Net cash used in operating activities	(6,540)	(8,993)
	-----	-----
Cash flows from investing activities:		
Cash used in acquisitions, net of cash acquired	(7,914)	-
Capital expenditures, net	(1,009)	(341)
Net proceeds from marketable securities transactions	2,260	746
	-----	-----
Net cash provided by (used in) investing activities	(6,663)	405
	-----	-----
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	14,216	11,830

Repayments of long-term obligations	(638)	(325)
Cash dividends	(267)	(244)
Other, net	(23)	(18)
	-----	-----
Net cash provided by financing activities	13,288	11,243
	-----	-----
Net increase in cash and cash equivalents	85	2,655
Cash and cash equivalents at beginning of period	1,744	1,093
	-----	-----
Cash and cash equivalents at end of period	\$ 1,829	\$ 3,748
	=====	=====
Supplemental cash flow information:		
Interest paid	\$ 791	\$ 608
	=====	=====
Income taxes paid	\$ 120	\$ 500
	=====	=====

See accompanying notes to consolidated financial statements

4 of 11

WATSCO, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1995

- The consolidated balance sheet as of December 31, 1994, which has been derived from audited financial statements, and the unaudited interim consolidated financial statements, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments necessary to a fair presentation have been included in the consolidated financial statements for the periods presented herein.
- The results of operations for the quarter ended March 31, 1995 are not necessarily indicative of the results for the year ending December 31, 1995. The sale of the Company's products and services is seasonal with revenues generally increasing during the months of May through August.
- At March 31, 1995 and December 31, 1994, inventories consist of (in thousands):

	March 31, 1995	December 31, 1994
	-----	-----
Raw materials	\$ 4,430	\$ 4,058
Work in process	1,321	1,152
Finished goods	59,100	44,049
	-----	-----
	\$64,851	\$49,259
	=====	=====

- On February 6, 1995, Comfort Supply, Inc. ("Comfort Supply"), the Company's Houston-based distribution subsidiary, acquired the common stock of Airite, Inc., a Louisiana-based wholesale distributor of residential central air conditioners and related parts and supplies. Consideration for the purchase consisted of a cash payment to the seller in the amount of \$100,000, with the remainder represented by a subordinated promissory note payable to the seller in the amount of \$615,000.

On March 13, 1995, Gemaire Distributors, Inc. ("Gemaire"), the Company's Florida-based distribution subsidiary, purchased certain accounts receivable, inventory and other operating assets and assumed certain liabilities of H.B. Adams, Inc. ("H.B. Adams"), a wholesale distributor of air conditioning, heating and refrigeration products operating seven branch locations in central Florida. The cash

consideration paid by Gemaire totaled approximately \$7.8 million and is subject to adjustment upon the completion of an audit of the assets purchased and liabilities assumed. In connection with this transaction, Gemaire increased its revolving credit agreement to allow maximum borrowings of \$27 million in order to fund the purchase and to provide additional financing for future working capital requirements.

The above acquisitions were accounted for under the purchase method of accounting. The excess of the aggregate purchase prices over the fair value of the net assets acquired of \$1.6 million is being amortized on a straight-line basis over 40 years. In connection with these acquisitions, the Company assumed liabilities of \$1,132,000.

5. In March 1995, Comfort Supply entered into a letter of intent to purchase the business and operating assets and assume certain liabilities of Environmental Equipment & Supplies, Inc., a wholesale distributor of residential central air conditioners and related parts and supplies based in North Little Rock, Arkansas. The purchase is subject to execution of a definitive agreement and other conditions.

5 of 11

6. On April 18, 1995, the Company's Board of Directors authorized, for both classes of the Company's common stock, a three-for-two stock split effected in the form of a 50% stock dividend payable on May 15, 1995 to shareholders of record as of April 28, 1995. All weighted average share and per share amounts included in this quarterly report have been restated to reflect this stock split.

7. Certain amounts for 1994 have been reclassified to conform with the 1995 presentation.

6 of 11

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

QUARTER ENDED MARCH 31, 1995 VS. QUARTER ENDED MARCH 31, 1994

RESULTS OF OPERATIONS

The following table presents certain items of the Company's consolidated financial statements for the three months ended March 31, 1995 and 1994, expressed as a percentage of total revenues:

	1995	1994
	----	----
Total revenues	100.0%	100.0%
Cost of sales and direct service expenses	(75.6)	(76.1)
	-----	-----
Gross profit	24.4	23.9
Selling, general and administrative expenses	(20.1)	(20.2)
	-----	-----
Operating income	4.3	3.7
Interest income, net	.1	-
Interest expense	(1.5)	(1.2)
Income taxes	(1.1)	(1.0)
Minority interests	(.3)	(.3)
	-----	-----
Net income	1.5%	1.2%
	=====	=====

The above table and following narrative includes, from the date of their respective acquisition, the results of operations of Airite, Inc. ("Airite"), a Louisiana-based wholesale distributor of residential central air conditioners acquired in February 1995, and H.B. Adams, Inc. ("H.B.

Adams"), a wholesale distributor of residential air conditioners located in central Florida whose business and assets the Company purchased in March 1995 (collectively, the "acquisitions").

Revenues for the three months ended March 31, 1995 increased \$5.1 million, or 9%, compared to the same period in 1994. In the climate control segment, revenues increased \$4.4 million, or 9%. Excluding the effect of acquisitions, revenues for the climate control segment increased \$3.0 million, or 6%. Revenues in the Company's Florida distribution market increased \$2.1 million, or 12%, partially due to the acquisition of H.B. Adams, but primarily due to a 6% increase in same store sales from increased sales of replacement air conditioners in south Florida, higher sales of parts and supplies as a result of improved marketing efforts and growth in international sales to Latin America. Revenues in the Company's Texas distribution market increased \$1.3 million, or 14%, helped by the acquisition of Airite. On a same store basis, revenues in the Texas distribution market increased 6% due to greater market penetration. Revenues in the Company's western distribution market rose 2% as increased sales of replacement air conditioners offset sales delays caused by heavy rains in California. Revenues in the Company's manufacturing operations increased \$641,000, or 13%, due to increased penetration of the original equipment manufacturer (OEM) market and new product offerings to both OEM and aftermarket customers. Revenues in the personnel services segment increased \$638,000, or 10%, reflecting greater demand for temporary help services and greater customer acceptance of new product offerings such as professional staffing and technical temporaries.

Gross profit for the three months ended March 31, 1995 increased \$1.5 million, or 12%, as compared to the same period in 1994. Excluding the effect of acquisitions, gross profit increased \$1.2 million, or 9%, primarily as a result of the aforementioned revenue increases but also due to increased gross profit margins. Gross profit margin in the first quarter increased to 24.4% in 1995 from 23.9% in 1994. Excluding the effect of acquisitions, gross profit margin increased to 24.5% in 1995 from 23.9% in 1994, primarily due to a shift in product mix during the quarter to higher margin replacement sales and increased sales of parts and supplies, which achieve higher margins than equipment sales.

7 of 11

Selling, general and administrative expenses for the three months ended March 31, 1995 increased \$835,000, or 8%, compared to the same period in 1994, primarily due to selling and delivery costs related to increased sales. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$565,000, or 5%, primarily due to revenue increases. Including and excluding the effect of acquisitions, selling, general and administrative costs as a percent of revenues decreased from 19.4% in 1994 to 19.1% in 1995. These decreases were the result of a larger revenue base, due to acquisitions and sales growth, over which to spread fixed costs.

Interest expense for the first quarter in 1995 increased \$234,000, or 35%, compared to the same period in 1994, due to interest rate increases and higher borrowings used to finance the purchase of H. B. Adams and to finance increased inventory levels required by sales growth and stocking requirements in new branch locations. Excluding the effect of acquisitions, interest expense increased \$195,000, or 29%, primarily due to interest rate increases and higher borrowings.

The effective tax rate for the three months ended March 31, 1995 was 38.6% compared to 37.9% for the same period in the 1994. The increase is primarily a result of a proportionately larger share of taxable income expected to be generated in states with higher tax rates during 1995 as compared to 1994.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased to \$1.8 million during the first quarter of 1995. Principal sources of cash were profitable operations, proceeds from the sale of marketable securities, primarily consisting of tax exempt municipal bonds, and increased borrowings under revolving credit agreements. The principal uses of cash were to fund acquisitions, finance capital expenditures and purchase inventories. Inventory purchases are

substantially funded by borrowings under the subsidiaries' revolving credit agreements. The increase in inventory in 1995 was higher than 1994 due to earlier receipt of inventory shipments from suppliers than in the prior year in order to take advantage of lower vendor prices and discounts and the purchase of new inventory products to expand product offerings.

The working capital position of the Company did not change materially from December 31, 1994. The Company has adequate availability of capital from operations and revolving credit facilities to fund current operations and anticipated growth, including expansion in the Company's current and targeted market areas, through 1995. At March 31, 1995, the Company's distribution operations had aggregate borrowing commitments from lenders under existing revolving credit agreements of \$62 million, of which \$16 million was unused and \$6 million available. Additionally, the Company has \$3 million available under an unsecured revolving credit facility with a bank. Certain of the subsidiaries' revolving credit agreements contain provisions limiting the payment of dividends to their shareholders. The Company does not anticipate that these limitations on dividends will have a material effect on the Company's ability to meet its cash obligations.

The Company continually evaluates additional acquisitions and other investment opportunities and its financing needs may change in the future. Should suitable investment opportunities or working capital needs arise that would require additional financing, the Company believes that its financial position and earnings history provide a solid base for obtaining additional financing resources at competitive rates and terms.

8 of 11

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no significant changes from the information reported in the Annual Report on Form 10-K for the period ended December 31, 1994, filed on March 28, 1995.

Item 2. Changes in the Rights of the Company's Security Holders

None

Item 3. Defaults by the Company on its Senior Securities

None

Item 4. Results of Votes of Securities Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

11. Computation of Earnings Per Share for the Quarters Ended March 31, 1995 and 1994.

(b) Reports on Form 8-K

None

9 of 11

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.

WATSCO, INC.

(Registrant)

By: /S/ RONALD P. NEWMAN

Ronald P. Newman
Vice President and
Secretary/Treasurer
(Chief Financial Officer)

May 12, 1995

10 of 11

COMPUTATION OF EARNINGS PER SHARE
 Quarters Ended March 31, 1995 and 1994
 (In \$000s except per share amounts)

	1995 (1) -----	1994 (1) -----
Net income	\$ 901	\$ 690
Less subsidiary preferred stock dividend	(32) -----	(32) -----
Income applicable to common stock for primary earnings per share	869	658
Add interest expense, net of income tax effects, attributable to convertible debentures	28 -----	31 -----
Income applicable to common stock for fully diluted earnings per share	\$ 897 =====	\$ 689 =====
Weighted average common shares outstanding	6,152	6,087
Additional shares assuming exercise of stock options and warrants	260 -----	142 -----
Shares used for primary earnings per share	6,412	6,229
Additional shares assuming exercise of stock options and warrants	60	25
Conversion of 10% Convertible Subordinated Debentures due 1996	248 -----	276 -----
Shares used for fully diluted earnings per share	6,720 =====	6,530 =====
Earnings per share:		
Primary	\$.14 =====	\$.11 =====
Fully diluted	\$.13 =====	\$.11 =====

<FN>

(1) Weighted average common shares used in the calculation of earnings per share for the quarters ended March 31, 1995 and 1994 have been restated to reflect a 3-for-2 stock split payable on May 15, 1995 to shareholders of record as of April 28, 1995.

</FN>

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