

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 JUNE 30, 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  
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 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: 4,693,937 shares of the Company's Common Stock (\$.50 par value) and 1,463,030 shares of the Company's Class B Common Stock (\$.50 par value) were outstanding as of August 8, 1995.

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PART I. FINANCIAL INFORMATION  
WATSCO, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
June 30, 1995 and December 31, 1994

(In \$000s)

	JUNE 30, 1995	DECEMBER 31, 1994
	----- (UNAUDITED)	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,218	\$ 1,744
Marketable securities	1,281	3,227
Accounts receivable, net	48,012	34,811
Inventories	68,471	49,259
Other current assets	5,555	4,608
Total current assets	----- 125,537	----- 93,649
Property, plant and equipment, net	9,902	8,829
Intangible assets, net	14,433	13,164
Other assets	4,538	4,022
	----- \$154,410	----- \$119,664

LIABILITIES AND SHAREHOLDERS' EQUITY	=====	=====
Current liabilities:		
Current portion of long-term obligations	\$ 1,809	\$ 1,781
Borrowings under revolving credit agreements	55,571	32,034
Accounts payable	20,910	13,108
Accrued liabilities	7,027	6,631
	-----	-----
Total current liabilities	85,317	53,554
Long-term obligations:		
Bank and other debt	3,133	2,719
Subordinated notes	2,500	2,500
Convertible subordinated debentures	1,505	1,505
	-----	-----
	7,138	6,724
Deferred income taxes	638	713
Minority interests	11,884	11,857
Shareholders' equity:		
Common Stock, \$.50 par value	2,345	2,334
Class B Common Stock, \$.50 par value	733	743
Paid-in capital	18,954	18,936
Retained earnings	27,401	24,803
	-----	-----
Total shareholders' equity	49,433	46,816
	-----	-----
	\$154,410	\$119,664
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS  
Quarter and Six Months Ended  
June 30, 1995 and 1994  
(In \$000s except per share amounts)  
(Unaudited)

	QUARTER ENDED JUNE 30		SIX MONTHS ENDED JUNE 30	
	1995	1994	1995	1994
	-----	-----	-----	-----
Revenues:				
Net sales	\$83,023	\$68,448	\$136,217	\$117,173
Royalty and service fees	8,039	7,379	15,166	13,906
	-----	-----	-----	-----
Total revenues	91,062	75,827	151,383	131,079
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	64,773	53,497	104,876	90,578
Direct service expenses	6,145	5,613	11,628	10,566
Selling, general and administrative	14,275	12,170	26,372	23,342
	-----	-----	-----	-----
Total costs and expenses	85,193	71,280	142,876	124,486
	-----	-----	-----	-----
Operating income	5,869	4,547	8,507	6,593
Interest expense, net	(1,075)	(782)	(1,923)	(1,422)
	-----	-----	-----	-----
Income before income taxes and minority interests	4,794	3,765	6,584	5,171
Income taxes	(1,842)	(1,409)	(2,534)	(1,942)
Minority interests	(651)	(430)	(848)	(613)
	-----	-----	-----	-----
Net income	2,301	1,926	3,202	2,616
Retained earnings at beginning of period	25,405	20,622	24,803	20,208
Cash dividends	(273)	(262)	(540)	(506)
Dividends on preferred stock of subsidiary	(32)	(32)	(64)	(64)
	-----	-----	-----	-----
Retained earnings at end of period	\$27,401	\$22,254	\$ 27,401	\$ 22,254
	=====	=====	=====	=====
Earnings per share:				
Primary	\$.35	\$.30	\$.48	\$.41
	=====	=====	=====	=====
Fully diluted	\$.34	\$.29	\$.47	\$.39
	=====	=====	=====	=====
Weighted average shares and equivalent shares used to calculate:				
Primary earnings per share	6,537	6,339	6,478	6,289
	=====	=====	=====	=====
Fully diluted earnings per share	6,817	6,624	6,815	6,623
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Six Months Ended June 30, 1995 and 1994  
(In \$000s)  
(Unaudited)

	1995 -----	1994 -----
Cash flows from operating activities:		
Net income	\$ 3,202	\$ 2,616
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	1,316	1,074
Deferred income tax credit	(75)	(95)
Minority interests, net of dividends paid	30	(119)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(9,329)	(8,582)
Inventories	(12,945)	(8,496)
Accounts payable and accrued liabilities	6,460	4,380
Other, net	(1,029)	162
Net cash used in operating activities	----- (12,370) -----	----- (9,060) -----
Cash flows from investing activities:		
Capital expenditures, net	(1,898)	(1,051)
Marketable securities transactions, net	1,938	(913)
Cash used in acquisitions, net of cash acquired	(8,175)	-
Net cash used in investing activities	----- (8,135) -----	----- (1,964) -----
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	23,537	12,080
Repayments of long-term obligations	(1,973)	(555)
Cash dividends	(540)	(506)
Other	(45)	(39)
Net cash provided by financing activities	----- 20,979 -----	----- 10,980 -----
Net increase (decrease) in cash and cash equivalents	474	(44)
Cash and cash equivalents at beginning of period	1,744	1,093
Cash and cash equivalents at end of period	----- \$ 2,218 =====	----- \$ 1,049 =====
Supplemental cash flow information:		
Interest paid	\$ 1,857 =====	\$ 1,701 =====
Income taxes paid	\$ 2,291 =====	\$ 1,394 =====

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 1995

1. The condensed consolidated balance sheet as of December 31, 1994, which has been derived from audited financial statements, and the unaudited interim condensed 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 for a fair presentation have been included in the condensed consolidated financial statements herein.
2. The results of operations for the quarter and six month period ended June 30, 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.
3. At June 30, 1995 and December 31, 1994, inventories consisted of (in thousands):

	JUNE 30, 1995	DECEMBER 31, 1994
	-----	-----
Raw materials	\$ 4,874	\$ 4,058
Work in process	1,274	1,152
Finished goods	62,323	44,049
	-----	-----
	\$68,471	\$49,259
	=====	=====

4. On May 15, 1995, the Company effected a three-for-two stock split in the form of a 50% stock dividend for both classes of the Company's common stock for shareholders of record as of April 28, 1995. Shareholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from retained earnings to common stock the par value of the additional shares arising from the split. All share and per share amounts have been restated to reflect the stock split.
5. On June 2, 1995, Comfort Supply, Inc., the Company's Houston-based distribution subsidiary, purchased certain accounts receivable, inventory and other operating assets and assumed certain liabilities of Environmental Equipment & Supplies, Inc. ("Environmental"), a wholesale distributor of residential air conditioners and related parts and supplies based in North Little Rock, Arkansas.  
  
The acquisition was accounted for under the purchase method of accounting. The excess of the purchase price over the fair value of the net assets acquired of \$30,000 is being amortized on a straight-line basis over 40 years. In connection with the acquisition, the Company assumed liabilities of \$2,163,000.
6. In July 1995, the Company's Amended and Restated Articles of Incorporation were amended to increase the number of authorized shares of Common Stock, par value \$.50 per share, from 10,000,000 to 40,000,000.
7. Certain amounts for 1994 have been reclassified to conform with the 1995 presentation.

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

RESULTS OF OPERATIONS

The following table presents certain items of the Company's consolidated financial statements for the quarter and six months ended June 30, 1995 and 1994 expressed as a percentage of total revenues:

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1995	1994	1995	1994
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales and direct service expenses	(77.9)	(78.0)	(77.0)	(77.2)
Gross profit	22.1	22.0	23.0	22.8
Selling, general and administrative expenses	(15.7)	(16.0)	(17.4)	(17.8)
Operating income	6.4	6.0	5.6	5.0
Interest expense, net	(1.2)	(1.0)	(1.2)	(1.1)
Income taxes	(2.0)	(1.9)	(1.7)	(1.4)
Minority interests	(.7)	(.6)	(.6)	(.5)
Net income	2.5%	2.5%	2.1%	2.0%
	=====	=====	=====	=====

The above table and following narrative include, from their respective dates of acquisition, the results of operations of Airite, Inc. ("Airite"), a Louisiana-based wholesale distributor of residential central air conditioners acquired in February 1995; 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; and Environmental Equipment & Supplies, Inc. ("Environmental"), a North Little Rock, Arkansas-based wholesale distributor of air conditioning and heating equipment whose business and assets the Company purchased in June 1995.

QUARTER ENDED JUNE 30, 1995 VS. QUARTER ENDED JUNE 30, 1994

Growth in revenue and operating results of the Company's distribution operations continued at a strong pace during the second quarter with same store sales achieving 12% growth and recent acquisitions contributing additional sales growth. This growth in revenues and greater leveraging of operating expenses resulted in a 41% increase in distribution operating profits for the quarter. In the Company's manufacturing operations, revenues and operating results were unfavorably impacted in the second quarter as moderate weather early in the summer and other factors slowed the pace of customer orders in both the original equipment manufacturer (OEM) market and aftermarket. In addition, high start-up costs for new product offerings reduced overall gross profit margins. The Company has taken appropriate measures in response to the softer market conditions and is making efforts to further improve the profitability of its new products. The Company is continuing to aggressively expand into other new product opportunities, both domestically and internationally, as market acceptance of the Company's products remains strong. Revenues and operating results of the Company's personnel services segment continued to grow during the quarter, although at slower rates than achieved in recent quarters.

Revenues for the three months ended June 30, 1995 increased \$15.2 million, or 20%, compared to the same period in 1994. In the climate control segment, revenues increased \$14.6 million, or 21%. Excluding the effect of acquisitions, revenues for the climate control segment increased \$7.1 million,

or 10%. Revenues in the Company's Florida distribution market increased \$9.9 million, or 37%, primarily from a 15% increase in same store sales and the acquisition of H.B. Adams. Revenues in the Company's Houston-based distribution subsidiary, which serves the Texas, Louisiana and Arkansas markets, increased \$2.9 million, or 20%, helped by the acquisitions of Airite and Environmental. On a same store basis, revenues in the market served by the Houston-based distribution subsidiary increased 9% due to greater market penetration. Revenues in the Company's western distribution market rose \$2.0 million, or 10%, on increased sales of replacement air conditioners in California. Revenues in the Company's manufacturing operations decreased \$235,000, or 4%, primarily due to soft market conditions and other factors. Revenues in the personnel services segment increased \$660,000, or 9%, reflecting continued demand for temporary help services.

Gross profit for the three months ended June 30, 1995 increased \$3.4 million, or 21%, as compared to the same period in 1994. Excluding the effect of acquisitions, gross profit increased \$1.7 million, or 10%, primarily as a result of the aforementioned revenue increases. Gross profit margin in the second quarter, including and excluding the effect of acquisitions, increased to 22.1% in 1995 from 22.0% in 1994 as increased gross profit margins in the distribution operations caused by greater sales of higher margin replacement air conditioners and parts more than offset lower margins in the manufacturing operations caused by soft market conditions and new product start-up costs.

Selling, general and administrative expenses for the three months ended June 30, 1995 increased \$2.1 million, or 17%, 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 \$901,000, or 7%, primarily due to revenue increases. Selling, general and administrative costs as a percent of revenues decreased from 16.0% in 1994 to 15.7% in 1995 and, excluding the effect of acquisitions, decreased from 16.0% in 1994 to 15.6% in 1995. These decreases were the result of a larger revenue base over which to spread fixed costs .

Interest expense, net for the second quarter in 1995 increased \$293,000, or 37%, compared to the same period in 1994, due to higher interest rates and additional borrowings used to finance acquisitions and increased inventory levels required by sales growth. Excluding the effect of acquisitions, interest expense, net increased \$151,000, or 19%, primarily due to higher interest rates and additional borrowings.

The effective tax rate for the three months ended June 30, 1995 was 38.4% compared to 37.4% for the same period in the 1994. The increase is primarily a result of a proportionately larger share of taxable income generated in states with higher tax rates during 1995 as compared to 1994.

#### SIX MONTHS ENDED JUNE 30, 1995 VS. SIX MONTHS ENDED JUNE 30, 1994

Revenues for the six months ended June 30, 1995 increased \$20.3 million, or 16%, compared to the same period in 1994. In the climate control segment, revenues increased \$19.0 million, or 16%. Excluding the effect of acquisitions, revenues for the climate control segment increased \$10.1 million, or 9%. Revenues in the Company's Florida distribution market increased \$12.0 million, or 27%, primarily due to the acquisition of H.B. Adams, but also due to an 11% increase in same store sales from increased sales of replacement air conditioners. Revenues in the market served by the Company's Houston-based distribution subsidiary increased \$4.3 million, or 17%, primarily on a 9% increase in same store sales due to greater market penetration and further aided by the acquisitions of Airite and Environmental. Revenues in the Company's western distribution market rose 7% on increased sales of replacement air conditioners. Revenues in the Company's manufacturing operations increased \$406,000, or 4%, primarily due to new product offerings to aftermarket customers. Revenues in the personnel services segment increased \$1.3 million, or 9%, reflecting continued demand for temporary help services and greater customer acceptance of new product offerings such as professional staffing and technical temporaries.

Gross profit for the six months ended June 30, 1995 increased \$4.9 million, or 17%, as compared to the same period in 1994. Excluding the effect of acquisitions, gross profit increased \$2.9 million, or 10%, primarily as a result of the aforementioned revenue increases but also due to increased gross profit margins. Gross profit margin for the six month period increased to 23.0% in 1995 from 22.8% in 1994 and, excluding the effect of acquisitions, increased to 23.1% in 1995 from 22.8% in 1994. These increases are primarily due to a shift in product mix during the period to replacement sales and increased sales of parts, which achieve higher margins than equipment sales.

Selling, general and administrative expenses for the six months ended June 30, 1995 increased \$3.0 million, or 13%, 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 \$1.6 million, or 7%, primarily due to revenue increases. Selling, general and administrative expenses as a percent of revenues decreased from 17.8% in 1994 to 17.4% in 1995 and, excluding the effect of acquisitions, decreased from 17.8% in 1994 to 17.5% in 1995. These decreases were the result of a larger revenue base over which to spread fixed costs.

Interest expense, net for the six months ended June 30, 1995 increased \$501,000, or 35%, compared to the same period in 1994, due to higher interest rates and additional borrowings used to finance acquisitions and increased inventory levels required by sales growth and stocking requirements in new branch locations. Excluding the effect of acquisitions, interest expense, net increased \$320,000, or 22%, primarily due to higher interest rates and additional borrowings.

The effective tax rate for the six months ended June 30, 1995 was 38.5% compared to 37.6% for the same period in the 1994. The increase is primarily a result of a proportionately larger share of taxable income generated in states with higher tax rates during 1995 as compared to 1994.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased to \$2.2 million during the second 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, reduce long-term obligations and fund working capital needs. Inventory purchases are substantially funded by borrowings under the subsidiaries' revolving credit agreements. The increase in inventory in 1995 was higher than 1994 primarily due to higher levels of inventory carried by the distribution operations necessary to meet increased demand.

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 June 30, 1995, the Company's distribution subsidiaries had aggregate borrowing commitments from lenders under existing revolving credit agreements of \$62 million, of which \$6 million was unused and 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.



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

In July 1995, the Company's Amended and Restated Articles of Incorporation were amended to increase the number of authorized shares of Common Stock, par value \$.50 per share, to 40,000,000.

Item 3. Defaults by the Company on its Senior Securities

None

Item 4. Results of Votes of Securities Holders

(a) The Company's 1995 Annual Meeting of Shareholders was held on June 5, 1995.

(b) Proxies were solicited by the Company's management pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to the management's nominees as listed in the proxy statement. The following nominees were elected as indicated in the proxy statement pursuant to the vote of the shareholders: Mr. James S. Grien; Mr. David B. Fleeman and Mr. Bob L. Moss. Other directors whose term of office continued after the meeting are as follows: Mr. Albert H. Nahmad (chairman), Mr. O.M. Butler, Mr. D.A. Coape-Arnold, Mr. Paul F. Manley, Mr. Roberto Motta and Mr. Alan H. Potamkin.

(c) Two additional proposals were voted upon at the Annual Meeting of Shareholders as follows:

(1) To ratify the action of the Board of Directors amending the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares of Common Stock, par value \$.50 per share, to 40,000,000.

(2) To ratify the reappointment of Arthur Andersen LLP, the Company's Independent Certified Public Accountants.

The combined vote of the Company's Common Stock and Class B Common Stock was as follows:

PROPOSAL 1	
-----	
For	9,764,578
Against	257,907
Abstained	10,625

PROPOSAL 2	
-----	
For	10,013,533
Against	10,865
Abstained	8,712

Item 4. Results of Votes of Securities Holders (continued)

As of April 17, 1995, the record date for the Annual Meeting of Shareholders, the total number of shares of the Company's Common Stock, \$.50 par value, and Class B Common Stock, \$.50 par value, outstanding was 3,106,712 and 996,185, respectively, representing 13,068,562 combined votes.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Amended and Restated Articles of Incorporation of Watsco, Inc.

11. Computation of Earnings Per Share for the Quarter and Six Months Ended June 30, 1995 and 1994.

(b) Reports on Form 8-K

None

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)

August 10, 1995

AMENDED AND RESTATED  
ARTICLES OF INCORPORATION  
OF  
WATSCO, INC.

ARTICLE I

The name of the Corporation is Watsco, Inc.

ARTICLE II

The post office address of the principal office of this corporation in the State of Florida is 2665 S. Bayshore Drive, Suite 901, Coconut Grove, Florida 33133. The Board of Directors may from time to time move the office to any other place in or outside the State of Florida.

ARTICLE III

A. The aggregate number of shares of Capital Stock which the Corporation shall have the authority to issue is 44,000,000 shares, of which 40,000,000 shares, at the par value of \$.50 per share, shall be designated as Common Stock and 4,000,000 shares, at the par value of \$.50 per share, shall be designated as Class B Common Stock.

B. The Common Stock and the Class B Common Stock shall be identical in all respects and shall have equal rights and privileges, except as otherwise provided in this Article III.

(1) DIVIDENDS: Subject to sub-paragraph 2 below, whenever a dividend is paid to the shareholders of Class B Common Stock, the Corporation shall also pay to the holders of Common Stock a dividend per share at least equal to the dividend per share paid to the holders of the Class B Common Stock. The Corporation may pay dividends to the holders of Common Stock in excess of dividends paid (or without paying dividends) to holders of Class B Common Stock.

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(2) STOCK DISTRIBUTIONS: If at any time a stock distribution is to be paid, such stock distribution may be declared and paid only as follows:

(a) So long as no shares of Common Stock have been issued or are outstanding, shares of Common Stock may be paid to holders of Class B Common Stock.

(b) Shares of Common Stock may be paid to holders of Common Stock and shares of Class B Common Stock may be paid to holders of Class B Common Stock.

(c) Whenever a stock distribution is paid, the same number of shares shall be paid with respect to each outstanding share of Common Stock or Class B Common Stock. The Corporation shall not combine or subdivide shares of either class without at the same time making an appropriate combination or subdivision of shares of the other class.

(3) VOTING: Voting power shall be divided between the Common Stock and Class B Common Stock as follows:

(a) With respect to the election of directors, holders of Common Stock, voting as a separate class, shall be entitled to elect that number of directors which constitute 25% of the authorized members of the Board of Directors and, if such 25% is not a whole number, the holders of such Common stock shall be entitled to elect the nearest higher whole number of directors that is at least 25% of such membership. Holders of Class B Common Stock, voting as a separate class, shall be entitled to elect the remaining directors.

(b) The holders of Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Common Stock and the holders of Class B Common Stock shall be entitled to vote as a separate class on the removal, with or without cause, of any director elected by the holders of Class B Common Stock.

(c) The holders of the Common Stock and the holders of the Class B Common Stock shall be entitled to vote as separate

classes on such other matters as may be required by law or these Amended and Restated Articles of Incorporation to be submitted to such holders voting as separate classes.

(d) Any vacancy in the office of a director elected by the holders of the Common Stock may be filled by a vote of such holders voting as a separate class and any vacancy in the office of a director elected by the holders of the Class B Common Stock may be filled by a vote of such holders acting as a separate class or, in the absence of a shareholder vote, in the case of a vacancy of a director elected by either class, such vacancy may be filled by the remaining directors as provided in the By-Laws. Any director elected by the Board of Directors to fill a vacancy shall serve until the next election of directors by shareholders and his or her successor has been elected and qualified.

(e) The holders of Common Stock and Class B Common Stock shall in all matters not specified in Sections (a), (b), (c) or (d) of this sub-paragraph 3 ("VOTING") vote together as a single class; provided that the holders of Common Stock shall have one (1) vote per share and the holders of Class B Common Stock shall have ten (10) votes per share.

(f) The Common Stock will not have the right to elect the directors set forth in paragraphs (a) and (d) above if, on the record date for any shareholder meeting at which directors are to be elected, the number of issued and outstanding shares of Common Stock is less than ten percent (10%) of the aggregate number of issued and outstanding shares of Common Stock and Class B Common Stock. In such cases, all directors to be elected at such meeting shall be elected by holders of Common Stock and Class B Common Stock voting together as a single class, provided that, with respect to said election, the holders of Common Stock will have one (1) vote per share and holders of Class B Common Stock, will have ten (10) votes per share.

(g) If, on the record date for any shareholder meeting at which directors are to be elected, the number of issued and outstanding shares of Class B Common Stock is less than 12-1/2% of the aggregate number of issued and outstanding shares of Common Stock and Class B Common Stock, then the holders of Common Stock shall continue to elect a number of Class A Directors equal to 25% of the total number of directors constituting the entire board of directors and, in addition, shall vote together with the holders of Class B Common Stock to elect the Class B Directors to be elected at such meeting, with the holders of Common Stock entitled to one (1) vote per share and the holders of Class B Common Stock entitled to ten (10) votes per share.

(h) Notwithstanding anything in this subparagraph 3 ("VOTING") to the contrary, the holders of Common Stock shall have exclusive voting power on all matters at any time when no Class B Common Stock is issued and outstanding.

(4) CONVERSION: Each holder of record of Class B Common Stock may at any time or may from time to time, in such holders' sole discretion and at such holders' option, convert any whole number or all of such holders' Class B Common Stock into fully paid and non-assessable shares of Common Stock at the rate of one share of Common Stock for each share of Class B Common Stock surrendered for conversion. Any such conversion may be effected by any holder of Class B Common Stock surrendering such holder's certificate or certificates for the Class B Common Stock to be converted, duly endorsed, at the office of the Corporation or any transfer agent for the Class B Common Stock, together with written notice to the Corporation at such office that such holder elects to convert all or a specified number of Class B Common Stock and stating the name or names in which such holder desires the certificate or certificates for such Common Stock to be issued. Promptly thereafter, the Corporation shall issue and deliver to such holder or holder's nominee, a certificate or certificates for the number of shares of Common Stock to which such holder will be entitled as aforesaid. Such conversion shall be deemed to have been made at the close of business at date of such surrender and the person or persons entitled to receive the Common Stock issuable on such conversion shall be treated for all purposes as the record holder or holders of such Common Stock on that date.

No fractional shares of Common Stock shall be issued on conversion of any Class B Common Stock but, in lieu thereof, the Corporation shall pay in cash therefor the pro rata fair market value of any such fraction. Such fair market value shall be based, in the case of publicly traded securities, on the last sale price for such securities on the business day next prior to the date such fair market value is to be determined or, in the event no sale is made on that day, the average of the closing bid and ask prices for that day on the principal stock exchange on which the Common Stock is traded or, if the Common Stock is not then listed on a national securities exchange, the average of the closing bid and ask prices for the day quoted by the NASDAQ System or, if the Common Stock is not then quoted by the NASDAQ System, the fair market value on such day determined by a qualified independent appraiser who is expert in evaluating such property and appointed by the Board of Directors of the Corporation. Any such determination of fair market value shall be final and binding on the Corporation and on each holder of Common Stock or Class B Common Stock.

#### ARTICLE IV

This Corporation shall have perpetual existence.

#### ARTICLE V

The Corporation shall have not less than three directors and not more than nine to be divided, as nearly as possible, into three equal classes, Class A, Class B, and Class C to serve in staggered terms of office of three years apiece.

Therefore, approximately one-third of the members of the Board of Directors shall be elected every three years to serve for a term of three years until their successors are duly elected and qualified. Vacancies in the Board of Directors shall be filled by the majority of the directors remaining in office for the unexpired term of office created by the vacancy; provided, however, that vacancies created by an increase in the number of directors by the Board of Directors between annual stockholders meetings shall be filled by a majority of the directors remaining in office until the next annual meeting of stockholders.

#### ARTICLE VI

The Corporation reserves the right to amend or repeal any provision contained in these Amended and Restated Articles of Incorporation, and any right conferred upon the shareholders is subject to this reservation.

The By-Laws of the Corporation may be amended from time to time by either the shareholders or the directors, but the directors may not alter or amend any By-Law adopted by the shareholders.

Ownership of stock shall not be required to make any person eligible to hold office either as an officer or director of this Corporation.

The shareholders may, by By-Law provision or by shareholders' agreement, recorded in the minute book, impose such restrictions on the sale, transfer, or encumbrance of the stock of this Corporation as they may see fit.

Any subscriber or stockholder present at any meeting, either in person or by proxy, and any director present in person at any meeting of the Board of Directors shall conclusively be deemed to have received proper notice of such meeting unless he shall make objection at such meeting to any defect or insufficiency of notice.



Any contract or other transaction between the Corporation and one or more of its directors, or between the Corporation and any firm of which one or more of its directors are members or employees, or in which they are interested, or between the Corporation and any corporation or association of which one or more of its directors are shareholders, members, directors, officers, or employees, or in which they are interested, shall be valid for all purposes, notwithstanding the presence of such director or directors at the meeting of the Board of Directors of the Corporation, which acts upon, or in reference to, such contract or transaction, and notwithstanding his or their participation in such action, if the fact of such interest shall be disclosed or known to the Board of Directors and the Board of Directors shall, nevertheless, authorize, approve and ratify such contract or transactions by a vote of a majority of the directors present, such interested director or directors to be counted in determining whether a quorum is present, but not to be counted in calculating the majority necessary to carry such vote. This section shall not be construed to invalidate any contract or other transaction which would otherwise be valid under the common and statutory law applicable thereto.

The Board of Directors is hereby specifically authorized to make provisions for reasonable compensation to its members for their services as directors, and to fix the basis and conditions upon which such compensation shall be paid. Any director of the Corporation may also serve the Corporation in any other capacity and receive compensation in any form.

#### ARTICLE VII

The Corporation shall indemnify any director, officer, or employee, or former director, officer or employee of the Corporation, or any person who may have served at its request as a director, officer or employee of another corporation in which it owns shares of capital stock, or of which it is a creditor, against expenses actually and necessarily incurred by him in connection with the defense of any action suit or proceeding in which he is made a party by reason of being or having been such director, officer or employee, except in relation to matters as to which he shall be adjudged in such action, suit or proceeding to be liable for negligence or misconduct in the performance of duty. The Corporation may also reimburse to any director, officer or employee the reasonable costs of settlement of any such action, suit or proceeding, if it shall be found by a majority of a committee composed of the directors not involved in the matter in controversy (whether or not a quorum) that it was to the interests of the corporation that such settlement be made and that such director, officer or employee was not guilty of negligence or misconduct. Such rights of indemnification and reimbursement shall not be deemed exclusive of any other rights to which such director, officer or employee may be entitled under any By-Law, agreement, vote of shareholders, or otherwise.

ARTICLE VIII

No shareholder of the Corporation shall have any right to purchase his pro rata share of any new issue of securities of any kind or class of the Corporation, sold by the Corporation.

WATSCO, INC.

/s/ Ronald P. Newman

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Ronald P. Newman  
Chief Financial Officer,  
Treasurer and Secretary

COMPUTATION OF EARNINGS PER SHARE  
 Quarter and Six Months Ended June 30, 1995 and 1994  
 (In \$000s except per share amounts)

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1995 -----	1994 (1) -----	1995 -----	1994 (1) -----
Net income	\$2,301	\$1,926	\$3,202	\$2,616
Less subsidiary preferred stock dividend	(32)	(32)	(64)	(64)
Income applicable to common stock for primary earnings per share	2,269	1,894	3,138	2,552
Add interest expense, net of income tax effects, attributable to convertible debentures	28	31	56	62
Income applicable to common stock for fully diluted earnings per share	\$2,297 =====	\$1,925 =====	\$3,194 =====	\$2,614 =====
Weighted average common shares outstanding	6,155	6,089	6,153	6,088
Additional shares assuming:				
Exercise of stock options and warrants	382	250	325	201
Shares used for primary earnings per share	6,537	6,339	6,478	6,289
Additional shares assuming:				
Exercise of stock options and warrants	32	9	89	58
Conversion of 10% Convertible Subordinated Debentures due 1996	248	276	248	276
Shares used for fully diluted earnings per share	6,817 =====	6,624 =====	6,815 =====	6,623 =====
Earnings per share:				
Primary	\$.35 =====	\$.30 =====	\$.48 =====	\$.41 =====
Fully diluted	\$.34 =====	\$.29 =====	\$.47 =====	\$.39 =====

(1) Weighted average common shares outstanding for the quarter and six months ended June 30, 1994 have been restated to include the effect of a 3-for-2 stock split paid on May 15, 1995.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE WATSCO, INC. FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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6-MOS	
DEC-31-1995	JUN-30-1995
	2,218
	1,281
	51,340
	3,328
	68,471
125,537	
	21,693
	11,791
	154,410
85,317	
	7,138
	3,078
0	
	0
	46,355
154,410	
	136,217
151,383	
	104,876
	116,504
	25,877
	495
1,923	
	6,584
	2,534
3,202	
	0
	0
	0
	3,202
	0.48
	0.47