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

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997

Commission File Number 1-5581

WATSCO, INC.
(Exact name of registrant as specified in its charter)

FLORIDA	59-0778222
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2665 South Bayshore Drive, Suite 901, Coconut Grove, FL 33133
(Address of principal executive offices)

Registrant's telephone number, including area code: (305) 858-0828

Securities Registered Pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, $.50 par value	New York Stock Exchange
Class B Common Stock, $.50 par value	American Stock Exchange

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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES [X] NO [ ]

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 25, 1998 was approximately $432,385,000.

The number of shares of common stock outstanding as of March 25, 1998 was 15,435,563 shares of Common Stock and 2,163,153 shares of Class B Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Parts I and II is incorporated by reference from the Annual Report to Shareholders for the year ended December 31, 1997, attached hereto as Exhibit 13. The information required by Part III (Items 10, 11, 12 and 13) will be incorporated by reference from the Registrant's definitive proxy statement (to be filed pursuant to Regulation 14A).

WATSCO, INC.

INDEX TO ANNUAL REPORT
ON FORM 10-K
YEAR ENDED DECEMBER 31, 1997

PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding, among other items, (i) the Company's business and acquisition strategies, (ii) potential acquisitions by the Company, (iii) the Company's financing plans, and (iv) industry, demographic and other trends affecting the Company's financial condition or results of operations. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company's control. Actual results could differ materially from these forward-looking statements as a result of several factors, including general economic conditions, prevailing interest rates, competitive factors and the ability of the Company to continue to implement its acquisition strategy. In light of these uncertainties, there can be no assurance that the forward-looking information contained herein will in fact transpire.

ITEM 1. BUSINESS

GENERAL

Watsco, Inc. (the "Registrant" or the "Company") was incorporated in 1956 and is the largest distributor of air conditioning and heating equipment and related parts and supplies in the United States. Growth has been enhanced by acquisitions and by the internal growth of existing businesses of the Company. In 1989, the Company began a strategy of establishing a network of distribution facilities across the sunbelt where U.S. population growth is greatest, weather patterns are predictably hot and air conditioning is seen as a necessity. Since initiating its strategy, Watsco has acquired over 20 distributors of air conditioning and heating equipment and the Company operates in 22 states, with leading positions in Florida, Texas and California, the three largest markets in the country. The Company's revenue from its distribution operations have increased from $64 million in 1989 to $635 million in 1997.

The Company's principal executive offices are located at 2665 South Bayshore Drive, Suite 901, Coconut Grove, Florida 33133, and its telephone is (305) 858-0828.

RESIDENTIAL CENTRAL AIR CONDITIONING INDUSTRY

According to the Air Conditioning and Refrigeration Institute ("ARI"), the market for residential central air conditioning, heating and refrigeration equipment and related parts and supplies in the U.S. was approximately $19 billion in 1997 with unitary equipment shipments having grown at an annual rate of 5.3% since 1990. Residential central air conditioners are manufactured primarily by seven major companies that together account for approximately 90% all units shipped in the U.S each year. These companies are: Carrier Corporation ("Carrier") (a subsidiary of United Technologies Corporation), Goodman Manufacturing Corporation ("Goodman"), Rheem Manufacturing Company ("Rheem"), International Comfort Products Corporation ("ICP"), American Standard Companies Inc. ("American Standard"), York International Corporation ("York") and Lennox Industries, Inc. The major manufacturers distribute their products primarily through independent distributors who in turn supply the equipment and related parts and supplies to contractors and dealers nationwide that sell to, and install the products for, the consumer.

Residential central air conditioning and heating equipment is sold to both the replacement and the homebuilding markets. The replacement market has increased substantially in size over the past ten years, surpassing the homebuilding market in significance as a result of the aging of the installed base of residential central air conditioners, the introduction of new energy efficient models and the upgrading of existing homes to central air conditioning. According to the ARI, over 70 million central air conditioning units have been installed in the United States in the past 20 years, with approximately 60% of those units installed in the sunbelt. Many units installed from the mid-1970s to the mid-1980s are reaching the end of their useful lives, thus providing a growing replacement market. The mechanical life of central air conditioners varies by region due to usage and is estimated to range from eight to 12 years in Texas and Florida to approximately 18 to 20 years in California. These three states are the largest markets for air conditioning and heating equipment in the United States, based on annual unit sales.

The Company also sells products used in the refrigeration industry. Such products include condensing units, compressors, evaporators, valves, walk-in coolers and ice machines for industrial and commercial applications. The Company distributes products manufactured by Copeland Compressor Corporation ("Copeland"), Tecumseh Products Company, The Manitowoc Company, Inc. and Scotsman Industries, Inc.

BUSINESS AND ACQUISITION STRATEGY

The Company focuses on satisfying the needs of the higher margin replacement market, where customers generally demand immediate, convenient and reliable service. In response to this need, the Company has adopted a strategy of (i) offering complete product lines, including all equipment and components necessary to install or repair a central air conditioner, furnace or refrigeration system, (ii) maintaining multiple warehouse locations in a single metropolitan market for increased customer convenience, and (iii) maintaining well-stocked inventories to ensure that customer orders are filled in a timely manner. The Company believes this strategy provides a competitive advantage over smaller, lesser-capitalized competitors who are unable to commit resources to open additional locations, maintain the same inventory levels and offer the product variety as the Company. The Company also believes it has a competitive advantage over factory-owned distributors who typically do not maintain inventories of all parts and supplies and whose limited number of warehouse locations make it difficult to meet the time-sensitive demands of the replacement market.

The Company also sells to the homebuilding market. The Company believes that its reputation for reliable, high quality service and its relationships with contractors, who generally serve both the replacement and new construction markets, allow it to compete effectively in this segment of the market. Homebuilding, in many of the markets the Company serves, remains below levels of the mid-1970s to mid-1980s. However, should homebuilding increase in those markets, the Company is well positioned to benefit from such increases.

The Company's acquisition strategy is to establish a network of distribution facilities and, since 1989, it has acquired over 20 distributors of air conditioning, heating and refrigeration products. The geographical focus of the Company's strategy has been primarily on the sunbelt where U.S. population growth is greatest, weather patterns are predictably hot and air conditioning is seen as a necessity. The Company's growth strategy seeks to enhance the value of acquired operations by better serving the "one-stop" shopping needs of contractors. This includes broadening product lines and committing other capital resources to develop the acquired businesses, including expanding existing locations and opening new locations.

The Company's distribution operations run on a decentralized basis in recognition of the value of the long-term relationships established between the distributors and their customers. The Company seeks to preserve the identity of acquired businesses by retaining their management and sales organizations, maintaining the product brand name offerings previously distributed by them, and selectively expanding complementary product offerings. The Company believes this strategy builds on the value of the acquired operations by creating additional sales opportunities, improving operating efficiencies and attaining greater leveraging of expenses.

The Company actively seeks new or expanded territories of distribution from the major equipment manufacturers.

The Company also maintains an active acquisition program. The following is a description of the Company's acquisitions completed in 1997:

COASTLINE DISTRIBUTION, INC. AND ADDITIONAL OPERATIONS. In January 1997, the Company completed the acquisition of the common stock of Coastline Distribution, Inc. ("Coastline") and the purchase of substantially all of the operating assets of four additional operations from ICP. Coastline and the additional operations are wholesale distributors of residential air conditioning and heating products manufactured by ICP and had revenue of approximately $93 million in the year prior to acquisition.

COMFORT PRODUCTS DISTRIBUTING AND CENTRAL PLAINS DISTRIBUTING. In March 1997, the Company completed the purchase of substantially all of the operating assets and assumption of certain liabilities of Comfort Products Distributing ("Comfort Products") and Central Plains Distributing ("Central Plains") from Carrier. Comfort Products and Central Plains are wholesale distributors of residential air conditioning and heating products manufactured by Carrier. Comfort Products and Central Plains had revenue of approximately $65 million in the year prior to acquisition.

BAKER DISTRIBUTING COMPANY. In September 1997, the Company completed the purchase of all the issued and outstanding capital stock of Baker Distributing Company ("Baker"), a wholesale distributor of air conditioning, refrigeration and heating products. Baker's product offerings include products manufactured by Goodman, ICP and Copeland. Baker had revenue of approximately $148 million in the year prior to acquisition.

OTHER. During 1997, the Company completed nine other acquisitions of wholesale distributors of air conditioning, heating and refrigeration products. The acquisitions were made either in the form of the purchase of the outstanding common stock or the purchase of the net assets and business of the respective sellers. These acquisitions added 37 locations and had combined revenue of $66 million for the most recently completed fiscal year.

RECENT DEVELOPMENTS

In January 1998, three of the leading equipment manufacturers granted the Company rights to distribute their residential and light commercial equipment in key U.S. markets: ICP granted the right to distribute "Tempstar" brand-name products in California, Arizona and Atlanta, Georgia and surrounding areas; American Standard granted the right to distribute "American Standard" brand-name products in North Carolina; and Carrier granted the right to distribute "Bryant" brand-name products in Kansas City and surrounding areas in Missouri and Kansas.

In February and March 1998, the Company completed five acquisitions of wholesale distributors of air conditioning and heating products. The acquisitions were made either in the form of the purchase of the outstanding common stock or the purchase of the net assets and business of the respective sellers.

Combined revenue for these distributors for the most recently completed fiscal year was approximately $32 million.

DESCRIPTION OF BUSINESS

PRODUCTS The Company sells a complete line of products and maintains sufficient inventory to meet customers' immediate needs. The Company's strategy is to provide every product a contractor generally would require in order to install or repair a residential or light commercial central air conditioner, furnace or refrigeration system. The products distributed by the Company in all of its markets consist of: (i) equipment, including residential central air conditioners ranging from 1-1/2 to 5 tons*, light commercial air conditioners ranging up to 20 tons, gas, electric and oil furnaces ranging from 50,000 to 150,000 BTUs and other specialized equipment; (ii) parts, including replacement compressors, evaporator coils, thermostats, motors and other component parts; (iii) supplies, including insulation material, refrigerants, ductwork, grills, registers, sheet metal, tools, copper tubing, concrete pads, tape, adhesives and other ancillary supplies. With the purchase of Comfort Products and Central Plains from Carrier, the Company also sells commercial air conditioning and heating equipment and systems ranging from 20 to 400 tons throughout six midwestern states.

Sales of air conditioning and heating equipment accounted for approximately 54% of revenue for 1997. Sales of parts and supplies (currently representing over 1,800 different vendors) comprised the remaining revenue.

DISTRIBUTION AND SALES The Company currently operates from 275 locations, most of which are located in regions which the Company believes have favorable demographic trends. The Company maintains well-stocked inventories at each warehouse location to meet the immediate needs of its customers. This is accomplished by transporting inventory between locations daily and either directly delivering products to customers with the Company's fleet of over 400 trucks or making the products available for pick-up at the location nearest to the customer. The company has over 300 commissioned salespeople with an average of more than 10 years of experience in the residential central air conditioning and heating equipment distribution industry.

MARKETS The Company's network serves 22 states from 275 locations. The Company's primary markets in the sunbelt include (in order of market size): Texas, Florida, California, Georgia, North Carolina, Tennessee, Arizona, Virginia, Alabama, Louisiana, South Carolina, Oklahoma, Arkansas, Mississippi, and Nevada. The Company also serves the midwestern states of Missouri, Kansas, Nebraska, Iowa, North Dakota and South Dakota. The Company also distributes products on an export basis in substantially all of Latin America and the Caribbean Basin.

CUSTOMERS AND CUSTOMER SERVICE The Company sells to contractors and dealers who service the new construction and replacement markets for residential and light commercial central air conditioning, heating and refrigeration systems. The Company currently serves over 35,000 customers, with no single customer in 1997 accounting for more than 1% of consolidated revenue. The Company focuses on providing products where and when the customer needs them, technical support by phone or on site as required, and quick and efficient service at the locations. Management believes that the Company successfully competes with other distributors primarily on the basis of its experienced sales organization, strong service support, high quality reputation and broad product lines.

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* The cooling capacity of air conditioning units is measured in tons. One ton of cooling capacity is equivalent to 12,000 BTUs and is generally adequate to air condition approximately 500 square feet of residential space.

KEY SUPPLIERS The Company maintains significant relationships with Carrier, Goodman, Rheem, ICP, American Standard and York, each a leading manufacturer of residential central air conditioning and heating equipment in the United States. Each manufacturer has a well-established reputation of producing high-quality, competitively priced products. The Company believes the manufacturers' current product offerings, quality, serviceability and brand-name recognition allow the Company to operate favorably against its competitors. To maintain brand-name recognition, the manufacturers provide national advertising and participate with the Company in cooperative advertising programs and promotional incentives that are targeted to both contractors and homeowners. The Company estimates the replacement market currently accounts for approximately 67% of industry sales in the United States and expects this percentage to increase as units installed in the 1970s and 1980s wear out and get replaced or updated to more energy-efficient models.

The Company made approximately 52% of its total 1997 purchases from these suppliers. A significant interruption in the delivery of products would impair the Company's ability to continue to maintain its current inventory levels and could adversely affect the Company's business. The Company's future results of operations are also materially dependent upon the continued market acceptance of these manufacturers' products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards. However, the Company believes that its sales of other complimentary equipment products and continued emphasis to expand the sale of parts and supplies are mitigating factors against such risks.

DISTRIBUTION AGREEMENTS The Company has distribution agreements with each of its key equipment suppliers, either on an exclusive or non-exclusive basis, for terms generally ranging from one to ten years. Certain of the distribution agreements contain certain provisions that restrict or limit the sale of competitive products in the markets served. Other than the markets where such restrictions and limitations may apply, the Company may distribute other manufacturers' lines of air conditioning or heating equipment.

OTHER INFORMATION

COMPETITION

All of the Company's businesses operate in highly competitive environments. The Company's distribution business competes with a number of distributors and also with several air conditioning and heating equipment manufacturers which distribute a significant portion of their products through their own distribution organizations in certain markets. Competition within any given geographic market is based upon product availability, customer service, price and quality. Competitive pressures or other factors could cause the Company's products or services to lose market acceptance or result in significant price erosion, all of which would have a material adverse effect on the Company's profitability.

EMPLOYEES

The distribution operations employed over 2,000 persons as of February 28, 1998. The Company believes that its relations with these employees are good.

SEASONALITY

Sales of residential central air conditioners, heating equipment and parts and supplies manufactured and distributed by the Company have historically been seasonal. Demand related to the residential central air conditioning replacement market is highest in the second and third quarters with demand for heating equipment usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the sunbelt markets is fairly even during the year excepting for dependence on housing completions and related weather and economic conditions.

OTHER

Order backlog is not a material aspect of the Company's business and no material portion of the Company's business is subject to government contracts.

DISCONTINUED OPERATIONS

The Company has historically operated two other businesses distinct from its distribution operations: Watsco Components, Inc. ("Components"), a manufacturing operation and Dunhill Staffing Systems, Inc. ("Dunhill"), a personnel services business. In November 1997, the Company's Board of Directors approved a plan for the divestment of Components and Dunhill. See Notes to Consolidated Financial Statements included in the Company's 1997 Annual Report for further information.

ITEM 2. PROPERTIES

The Company operates 275 locations in the U.S. having approximately 4.5 million square feet of space, of which approximately 4.0 million square feet is leased. The Company believes that its facilities are well maintained and adequate to meet its needs.

ITEM 3. LEGAL PROCEEDINGS

The Company is from time to time involved in routine litigation. Based on the advice of legal counsel, the Company believes that such actions presently pending will not have a material adverse impact on the Company's consolidated financial position or results of operations.

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of the year ended December 31, 1997.

PART II

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

Page 28 of the 1997 Annual Report contains "Information on Common Stock", which identifies the market on which the Registrant's common stocks are being traded and contains the high and low sales prices and dividend information for the years ended December 31, 1997, 1996 and 1995 and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Page 8 of the Company's 1997 Annual Report contains "Selected Consolidated Financial Data" and is incorporated herein by reference.

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

Pages 9 through 11 of the Company's 1997 Annual Report contain "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pages 12 through 25 of the Company's 1997 Annual Report contain the 1997 and 1996 Balance Sheets and other financial statements for the years ended December 31, 1997, 1996 and 1995, together with the report thereon of Arthur Andersen LLP dated February 11, 1998, are incorporated herein by reference.

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

None.

PART III

This part of Form 10-K, which includes Items 10 through 13, is omitted because the Registrant will file definitive proxy material pursuant to Regulation 14A not more than 120 days after the close of the Registrant's year end, which proxy material will include the information required by Items 10 through 13 and is incorporated herein by reference.

PART IV

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

		PAGE NO. IN ANNUAL REPORT
(a)	Financial Statements, Financial Statement Schedules and Exhibits	
(1)	Financial Statements (incorporated by reference from the 1997 Annual Report of Watsco, Inc.):	
	Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995	12
	Consolidated Balance Sheets as of December 31, 1997 and 1996	13
	Consolidated Statements of Shareholders' Equity for the years ended December 31, 1997, 1996 and 1995	14
	Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995	15
	Notes to Consolidated Financial Statements	16-25
	Report of Independent Certified Public Accountants	26
	Selected Quarterly Financial Data (Unaudited)	27

		PAGE NO. IN FORM 10-K
(2)	Financial Statement Schedule: For the three years ended December 31, 1997:	
	Report of Independent Certified Public Accountants on Schedule	S-1
	Schedule II. Valuation and Qualifying Accounts	S-2

All other schedules have been omitted since the required information is not present, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Financial Statements or notes thereto.

(3) Exhibits: The following list of exhibit includes exhibits submitted with this Form 10-K as filed with the SEC and those incorporated by reference to other filings.

3.1 Company's Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1995 and incorporated herein by reference).

3.2 Company's Amended Bylaws (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1985 and incorporated herein by reference).

4.1 Specimen form of Class B Common Stock Certificate (filed as Exhibit 4.6 to the Company's Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference).

4.2 Specimen form of Common Stock Certificate (filed as Exhibit 4.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).

10.1 Rheem Manufacturing Company Distributor Agreement by and between Rheem Manufacturing Company and Gemaire Distributors, Inc., dated December 30, 1988 (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988 and incorporated herein by reference).

10.2 Amendment dated January 4, 1991 to Distribution Agreement dated December 30, 1990 between Rheem Manufacturing Company and Gemaire Distributors, Inc. (filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference).

10.3 Distributor Agreement between Heating & Cooling Supply, Inc. and Rheem Manufacturing, Inc. dated October 15, 1990 (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990 and incorporated herein by reference).

10.4 Rheem Manufacturing Company Distributor Agreement by and between Rheem Manufacturing Company and Comfort Supply, Inc. (filed as Exhibit 10.20 to the Company's Form 8-K dated May 26, 1993 and incorporated herein by reference).

10.5 Stock Exchange Agreement and Plan of Reorganization dated February 6, 1996 by and between Watsco, Inc. and Rheem Manufacturing Company (filed as Exhibit 10.29 to the Company's Registration Statement on Form S-3 (No. 333-00371) and incorporated herein by reference).

10.6 Amendment dated February 6, 1996 to Distributor Agreement dated December 30, 1998 between Rheem Manufacturing Company and Gemaire Distributors, Inc. (filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and incorporated herein by reference).

10.7 Amendment dated February 6, 1996 to Distributor Agreement dated May 25, 1993 (and as amended by Supplemental Agreement dated as of June 1, 1995) between Rheem Manufacturing Company and Comfort Supply, Inc. (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and incorporated herein by reference).

10.8 Amendment dated February 6, 1996 to Distributor Agreement dated October 15, 1990 between Rheem Manufacturing Company and Heating & Cooling Supply, Inc. (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and incorporated herein by reference).

10.9 Amended and Restated Revolving Credit and Reimbursement Agreement dated August 8, 1997 by and among Watsco, Inc., NationsBank, N.A. (Agent) and Barnett Bank, N.A., First Union National Bank, Suntrust Bank (Co-Agents), and the Lenders Party Hereto from Time to Time (filed as Exhibit 10.18 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 1997 and incorporated herein by reference).

10.10 1983 Executive Stock Option Plan of Watsco, Inc. (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-8 (Registration No. 33-6229) and incorporated herein by reference).

10.11 Key Executive Deferred Compensation Agreement dated January 31, 1983, between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference).

10.12 Watsco, Inc. Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q dated June 30, 1993 and incorporated herein by reference).

10.13 Watsco, Inc. Amended and Restated Profit Sharing Retirement Plan and Trust Agreement dated October 21, 1994 (filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

10.14 Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996 and incorporated herein by reference).

10.15 Watsco, Inc. 1996 Qualified Employee Stock Purchase Plan (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-8 (333-10363) and incorporated herein by reference).

10.16 Amendment Agreement No. 1 to Amended and Restated Revolving Credit and Reimbursement Agreement dated February 20, 1998 by and among Watsco, Inc., the Lenders hereto and NationsBank National Association.#

13. 1997 Annual Report to Shareholders (with the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 1997 Annual Report to Shareholders is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K). #

21. Subsidiaries of the Registrant. #

23. Consent of Independent Certified Public Accountants. #

27. Financial Data Schedule. #

Note to exhibits:

Submitted electronically herewith.

(b) Reports on Form 8-K:

No reports on Form 8-K were filed by the Registrant during the fourth quarter of 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WATSCO, INC.

March 30, 1998	By: /S/ ALBERT H. NAHMAD Albert H. Nahmad, President
March 30, 1998	By: /S/ BARRY S. LOGAN Barry S. Logan, Vice President

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

SIGNATURE	TITLE	DATE
/S/ ALBERT H. NAHMAD Albert H. Nahmad	Chairman of the Board and President (principal executive officer)	March 30, 1998
/S/ BARRY S. LOGAN BARRY S. LOGAN	Vice President and Secretary (principal accounting officer)	March 30, 1998
/S/ CESAR L. ALVAREZ Cesar L. Alvarez	Director	March 30, 1998
/S/ DAVID B. FLEEMAN David B. Fleeman	Director	March 30, 1998
/S/ PAUL F. MANLEY Paul F. Manley	Director	March 30, 1998
/S/ BOB L. MOSS Bob L. Moss	Director	March 30, 1998
/S/ ROBERTO MOTTA Roberto Motta	Director	March 30, 1998
/S/ RONALD P. NEWMAN Ronald P. Newman	Director	March 30, 1998
/S/ ALAN H. POTAMKIN Alan H. Potamkin	Director	March 30, 1998

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE

To the Board of Directors and
Shareholders of Watsco, Inc.:

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in Watsco, Inc.'s Annual Report to Shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated February 11, 1998. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The accompanying Schedule II is the responsibility of the Company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Miami, Florida,
February 11, 1998.

WATSCO, INC.
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS

For the Years Ended December 31, 1997, 1996 and 1995
(In thousands)

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

BALANCE, December 31, 1994	$2,369
Allowance from acquisitions	453
Additions charged to costs and expenses	1,145
Write-offs, net	(1,091)
BALANCE, December 31, 1995	2,876
Allowances from acquisitions	110
Additions charged to costs and expenses	1,432
Write-offs, net	(1,559)
BALANCE, December 31, 1996	2,859
Allowances from acquisitions	3,191
Additions charged to costs and expenses	1,329
Write-offs, net	(1,827)
BALANCE, December 31, 1997	$5,552

EXHIBIT INDEX

EXHIBIT	DESCRIPTION
10.16	Amendment Agreement No. 1 to Amended and Restated Revolving Credit and Reimbursement Agreement dated February 20, 1998 by and among Watsco, Inc., the Lenders hereto and NationsBank National Association.
13.	1997 Annual Report to Shareholders (with the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 1997 Annual Report to Shareholders is provided solely for the information of the Securities and Exchange Commission and is not deemed "filed" as part of this Form 10-K).
21.	Subsidiaries of the Registrant.
23.	Consent of Independent Certified Public Accountants.
27.	Financial Data Schedule.

AMENDMENT AGREEMENT NO. 1 TO AMENDED AND RESTATED REVOLVING CREDIT AND REIMBURSEMENT AGREEMENT

THIS AMENDMENT AGREEMENT NO. 1 TO AMENDED AND RESTATED REVOLVING CREDIT AND REIMBURSEMENT AGREEMENT (this "Agreement") is made and entered into as of this 20th day of February, 1998, by and among WATSCO, INC., a Florida corporation (the "Borrower"), the Lenders signatory hereto (the "Lenders") and NATIONSBANK, NATIONAL ASSOCIATION, a national banking association and successor to NationsBank, National Association (South), as Agent (the "Agent") for the Lenders party to the Credit Agreement described below.

W I T N E S S E T H:

WHEREAS, the Borrower, the Agent and the Lenders have entered into an Amended and Restated Revolving Credit Agreement dated August 8, 1997 (the "Credit Agreement") pursuant to which the Lenders have agreed to make available to the Borrower a revolving credit facility of up to $260,000,000; and

WHEREAS, as a condition to the making of loans the Lenders have required that each Subsidiary of Borrower execute a Facility Guaranty whereby it guarantees payment of the Obligations arising under the Credit Agreement; and

WHEREAS, the Borrower intends to dispose of its non-distribution businesses consisting of its manufacturing operations (the "Manufacturing Business") owned by its Manufacturing Subsidiary and its temporary staffing business, Dunhill Staffing Systems, Inc. and Subsidiaries (the "Staffing Business") in a single or series of transactions; and

WHEREAS, the Borrower has requested and the Agent and the Lenders have agreed, subject to the terms and conditions of this Agreement, to amend certain provisions of the Credit Agreement as set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants, promises and conditions herein set forth, it is hereby agreed as follows:

1. DEFINITIONS. The term "Credit Agreement" as used herein and in the Loan Documents shall mean that certain Amended and Restated Revolving Credit and Reimbursement Agreement dated as of August 8, 1997 by and among the Agent, the Lenders and the Borrower, as hereby amended and as from time to time further amended or modified. Unless the context otherwise requires, all capitalized terms used herein without definition shall have the respective meanings provided therefor in the Credit Agreement.

2. AMENDMENTS. Subject to the conditions set forth herein, the Credit Agreement shall be and hereby is amended, effective as of the date hereof, as follows:

(a) Section 1.1 of the Credit Agreement is hereby amended by inserting therein the following new defined terms in alphabetical order:

"'Manufacturing Subsidiaries' means each of P.E./Delmar, Inc., Watsco Components, Inc., and Watsco Export, Inc."

(b) Section 8.4 of the Credit Agreement is hereby amended by deleting the word "and" at the end of clause (e) thereof, deleting the "." at the end of clause (f) thereof and inserting the word "; and" in replacement thereof and by adding a new clause (g) at the end thereof which shall read in its entirety as follows:

"(g) Liens incurred in any sale, transfer or disposition of accounts receivable as permitted under SECTION 8.6(G)."

(c) Section 8.6 of the Credit Agreement is hereby deleted in its entirety and the following new Section 8.6 is inserted in replacement thereof:

"8.6 TRANSFER OF ASSETS. Sell, lease, transfer or otherwise dispose of any assets of Borrower or any Subsidiary (including any ownership interest in any Subsidiary) other than (a) dispositions of inventory in the ordinary course of business, (b) dispositions of equipment or real property which, in the aggregate during any Fiscal Year, have a fair market value or book value, whichever is less, of $5,000,000 or less and is not replaced by equipment having at least equivalent value, (c) dispositions of property that is substantially worn, damaged, obsolete or, in the judgment of the Borrower, no longer best used or useful in its business or that of any Subsidiary, (d) transfers of assets necessary to give effect to merger or consolidation transactions permitted by SECTION 8.8, (e) the disposition of Eligible Securities in the ordinary course of management of the investment portfolio of the Borrower and its Subsidiaries, (f) the sale or disposition of all or substantially all of the capital stock or assets of Dunhill or any of the Manufacturing Subsidiaries for no less than fair market value, as determined by the Board of Directors of the Borrower, (upon which event the Agent will, at the request and reasonable expense of the Borrower, execute such documents as shall be acceptable to the Agent and its special counsel releasing Dunhill and each Manufacturing

Subsidiary from its obligations under any Facility Guaranty to which it is a party), consideration for which may include notes of purchasers in an aggregate amount not exceeding $25,000,000 and a repayment term not exceeding three years, and (g) the sale, without recourse, other than for misrepresentation, by Gemaire Distributors, Inc. and Coastline

Distribution, Inc. of accounts receivable having a value, net on all allowances and discounts, of not to exceed during any Fiscal Year an aggregate dollar value of $5,000,000 which receivables shall be payable by Persons who are not United States citizens or organized and existing under the laws of the United States or a state or territory thereof."

(d) Section 8.7 of the Credit Agreement is hereby amended by (i) amending and restating clause (f) in its entirety so that as amended it reads as follows:

"(f) additional investments in Persons provided that (i) the aggregate costs incurred in making such investments (reduced by cash dividends or other cash payments received on or in consideration of such investments) does not exceed $20,000,000 in the aggregate at any time and (ii) prior to and immediately after giving effect to such investment, no Default or Event of Default shall exist and be continuing;"

(ii) deleting the word "and" at the end of clause (g) thereof, (iii) replacing the "." at the end of clause (h) thereof with a semicolon and (iv) inserting new clauses (i) and (j) at the end thereof which shall read as follows:

"(i) investments consisting of ownership interests in another Person resulting from dispositions or mergers permitted under SECTION 8.6(F) and SECTION 8.8 hereof; and

(j) the notes of purchasers described in Section 8.6(f)."

(e) Section 8.8 of the Credit Agreement is hereby deleted in its entirety and the following new Section 8.8 is inserted in replacement thereof:

"8.8 MERGER OR CONSOLIDATION. (a) Consolidate with or merge into any other Person, or (b) permit any other Person to merge into it, or (c) liquidate, wind-up or dissolve or sell, transfer or lease or otherwise dispose of all or a substantial part of its assets; PROVIDED, HOWEVER, (i) any Subsidiary of the Borrower may merge or transfer all or substantially all of its assets into or consolidate with the Borrower or any wholly-owned Subsidiary of the Borrower, and (ii) any other Person may merge into or consolidate with the Borrower or any wholly-owned Subsidiary and any Subsidiary may merge into or consolidate with any other Person in order to consummate an Acquisition permitted by SECTION 8.2, PROVIDED FURTHER, that any resulting or surviving entity shall execute and deliver such agreements and other documents, including a Facility Guaranty, and take such other action as the Agent may require to evidence or confirm its express assumption of the obligations and liabilities of its predecessor entities under the Loan Documents; and PROVIDED FURTHER that Dunhill and any Manufacturing Subsidiary may merge with or into or consolidate with any other Person in connection with the disposition of Dunhill or such Manufacturing Subsidiary in accordance with SECTION 8.6(F) so long as a result thereof the Borrower and/or its Subsidiaries shall not be liable for or assume any liability or obligation of any Person who was not immediately prior to such time a Subsidiary."

3. GUARANTORS. Each of the Guarantors has joined into the execution of this Agreement for the purpose of consenting to the amendment contained herein and reaffirming its guaranty of the Obligations.

4. BORROWER'S REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents, warrants and certifies that:

(1) The representations and warranties made by it in Article VI of the Credit Agreement are true on and as of the date hereof before and after giving effect to this Agreement except that the financial statements referred to in Section 6.6(a) shall be those most recently furnished to each Lender pursuant to Section 7.1(a) and (b) of the Credit Agreement;

(2) The Borrower has the power and authority to execute and perform this Agreement and has taken all action required for the lawful execution, delivery and performance thereof.

(3) There has been no material adverse change in the condition, financial or otherwise, of the Borrower and its Subsidiaries since the date of the most recent financial reports of the Borrower received by each Lender under Section 7.1 of the Credit Agreement, other than changes in the ordinary course of business, none of which has been a material adverse change;

(4) The business and properties of the Borrower and its Subsidiaries are not, and since the date of the most recent financial report of the Borrower and its Subsidiaries received by the Agent under Section 7.1 of the Credit Agreement have not been, adversely affected in any substantial way as the result of any fire, explosion, earthquake, accident, strike, lockout, combination of workmen, flood, embargo, riot, activities of armed forces, war or acts of God or the public enemy, or cancellation or loss of any major contracts; and

(5) No event has occurred and no condition exists which, upon the consummation of the transaction contemplated hereby, constituted a Default or an Event of Default on the part of the Borrower under the Credit Agreement or the Notes either immediately or with the lapse of time or the giving of notice, or both.

5. ENTIRE AGREEMENT. This Agreement sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relative to such subject matter. None of the terms or conditions of this Agreement may be changed, modified, waived or canceled orally or otherwise, except by writing, signed by all the parties hereto, specifying such change, modification, waiver or cancellation of such terms or conditions, or of any proceeding or succeeding breach thereof.

6. FULL FORCE AND EFFECT OF AGREEMENT. Except as hereby specifically amended, modified or supplemented, the Credit Agreement and all of the other Loan Documents are hereby confirmed and ratified in all respects and shall remain in full force and effect according to their respective terms.

7. COUNTERPARTS. This Agreement may be executed in any number of counterparts and all the counterparts taken together shall be deemed to constitute one and the same instrument.

[Signature pages follow.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their duly authorized officers, all as of the day and year first above written.

BORROWER:

WATSCO, INC.

WITNESS:

/S/ DORIS ZULUETA	By: /S/ BARRY S. LOGAN
	Name: Barry S. Logan
/S/ PAUL D. SISAK	Title: Vice President Finance and Chief Financial Officer

GUARANTORS:

WATSCO COMPONENTS, INC.
P.E./DEL MAR, INC.
CDS HOLDINGS, INC.
COASTLINE DISTRIBUTION, INC.
A&C DISTRIBUTORS, INC.
GEMAIRE DISTRIBUTORS, INC.
H.B. ADAMS DISTRIBUTORS, INC.
GEM CREDIT CORPORATION
THE FLORIDA AD COMPANY
GEMAIRE INTERNATIONAL, INC.
GEMAIRE HOLDINGS, INC.
GEMAIRE CARIBE, INC.
COMFORT SUPPLY, INC.
WATSCO EXPORT, INC.
THE HOUSTON AD COMPANY, INC.
HEATING & COOLING SUPPLY, INC.
THREE STATES SUPPLY COMPANY, INC.
CP DISTRIBUTORS, INC.
COMFORT PRODUCTS DISTRIBUTING, INC.
CENTRAL PLAINS DISTRIBUTING, INC.
CENTRAL AIR CONDITIONING DISTRIBUTORS, INC.
WEATHERTROL SUPPLY COMPANY
AIR SYSTEMS DISTRIBUTORS, INC.
DUNHILL STAFFING SYSTEMS, INC.
DUNHILL TEMPORARY SYSTEMS OF INDIANAPOLIS, INC.
DUNHILL TEMPORARY SYSTEM OF INDIANAPOLIS, L.P.
DUNHILL TEMPORARY SYSTEMS, INC.
DUNHILL PERSONNEL SYSTEM OF NEW JERSEY, INC.
DUNHILL STAFFING SYSTEMS OF MILWAUKEE, INC.
DUNHILL ENTERPRISES, INC.

WITNESS:

/S/ DORIS ZULUETA

/S/ PAUL D. SISAK

By: /S/ BARRY S. LOGAN

Name: Barry S. Logan
Title: Vice President

AGENT:

NATIONSBANK, NATIONAL ASSOCIATION, as
Agent for the Lenders

By: /S/ ANDREW M. AIRHEART

Name: Andrew M. Airheart
Title: Senior Vice President

LENDERS:

NATIONSBANK, NATIONAL ASSOCIATION

By: /S/ ANDREW M. AIRHEART

Name: Andrew M. Airheart
Title: Senior Vice President

FIRST UNION NATIONAL BANK

By: /S/ MARY A. MORGAN

Name: MARY A. MORGAN
Title: SENIOR VICE PRESIDENT

BARNETT BANK, N.A.

By: /S/ GUILLERMO G. CASTILLO

Name: GUILLERMO G. CASTILLO
Title: VICE PRESIDENT/CORPORATE BANKING

SUNTRUST BANK, MIAMI, N.A.

By: /S/ JONATHAN D. FISHER

Name: JONATHAN D. FISHER
Title: SENIOR VICE PRESIDENT

THE BANK OF NEW YORK

By: /S/ DAVID C. SIEGEL

Name: DAVID C. SIEGEL
Title: VICE PRESIDENT

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /S/ R. GLASS

Name: R. GLASS
Title: VICE PRESIDENT

COMERICA BANK

By: /S/ MARTIN G. ELLIS

Name: MARTIN G. ELLIS
Title: VICE PRESIDENT

WACHOVIA BANK, N.A.

By: /S/ PATRICK A. PHELAN

Name: PATRICK A. PHELAN
Title: VICE PRESIDENT

PNC BANK, KENTUCKY, INC.

By: /S/ RALPH M. BOWMAN

Name: RALPH M. BOWMAN
Title: VICE PRESIDENT

THE SAKURA BANK, LIMITED

By: /S/ HIROYASU IMANISHI

Name: HIROYASU IMANISHI
Title: VICE PRESIDENT & SENIOR MANAGER

THE FUJI BANK AND TRUST COMPANY

By: /S/ RAYMOND VENTURA

Name: RAYMOND VENTURA
Title: VICE PRESIDENT & MANAGER

WATSCO, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

YEARS ENDED DECEMBER 31, (IN THOUSANDS, EXCEPT PER SHARE DATA)	1997	1996	1995	1994	1993
OPERATIONS					
Revenue	$635,218	$365,356	$276,188	$229,835	$181,765
Income from continuing operations	18,308	11,019	5,627	3,695	3,981
SHARE DATA (1)					
Diluted earnings per share from continuing operations	$1.02	$0.77	$0.54	$0.37	$0.42
Cash dividends declared per share:					
Common Stock	$0.14	$0.14	$0.13	$0.11	$0.11
Class B Common Stock	0.14	0.14	0.13	0.11	0.11
Common stock outstanding	17,430	14,032	9,423	9,226	9,127
BALANCE SHEET INFORMATION					
Total assets	$426,040	$197,197	$141,183	$115,991	$ 106,186
Long-term obligations	137,241	50,355	5,419	5,749	6,814
Shareholders' equity	225,598	119,929	53,756	46,816	41,754

(1) SHARE DATA INCLUDES THE EFFECTS OF THREE-FOR-TWO SPLITS EFFECTED ON JUNE 14, 1996 AND MAY 15, 1995.

WATSCO, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Watsco, Inc. ("Watsco") and its subsidiaries (the "Company") is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies in the United States. The Company operates in 22 states, with leading positions in Florida, Texas and California, the three largest markets in the country.

The following table presents the Company's consolidated financial results from continuing operations for the three years ended December 31, 1997, 1996 and 1995, expressed as a percentage of total revenue:

	1997	1996	1995
Total revenue	100.0%	100.0%	100.0%
Cost of sales	77.5	78.3	78.7
Gross profit	22.5	21.7	21.3
Selling, general and administrative expenses	17.3	15.9	15.7
Operating income	5.2	5.8	5.6
Investment income, net	0.2	0.1	0.1
Interest expense	(0.7)	(1.0)	(1.5)
Income taxes	(1.8)	(1.9)	(1.6)
Minority interests	-	-	(0.6)
Income from continuing operations	2.9%	3.0%	2.0%

The following narratives include the results of operations of wholesale distributors of air conditioning and heating equipment and related parts and supplies acquired during 1997, 1996 and 1995. The acquisitions were accounted for under the purchase method of accounting and, accordingly, their results of operations have been included in the consolidated results of the Company beginning on their respective dates of acquisition.

COMPARISON OF YEAR ENDED DECEMBER 31, 1997 WITH YEAR ENDED DECEMBER 31, 1996

Revenue in 1997 increased $269.9 million, or 74%, over 1996. Excluding the effect of acquisitions, revenue increased $24.3 million, or 7%. Such increase was primarily due to additional sales generated from market share gains and increased sales generated by expanded product lines of parts and supplies.

Gross profit in 1997 increased $63.5 million, or 80%, over the prior year primarily as a result of the aforementioned revenue increases. Excluding the effect of acquisitions, gross profit increased $7.8 million, or 10%. Gross profit margin increased to 22.5% in 1997 from 21.7% in 1996. Excluding the effect of acquisitions, gross profit margin increased to 22.4% in 1997 from 21.7% in 1996. Such increase was primarily due to improved pricing disciplines and the contribution from new national vendor programs.

Selling, general and administrative expenses in 1997 increased $51.5 million, or 88%, over 1996. Excluding the effect of acquisitions, selling, general and administrative expenses increased $ 6.9 million, or 12%, primarily due to increased revenue and the higher costs related to new branches and the expansion of existing branches. Selling, general and administrative expenses as a percent of revenue increased to 17.3% in 1997 from 15.9% in 1996, primarily due to the higher cost structures of acquired companies and start-up costs related to the opening of new distribution branches. Excluding the effect of acquisitions, selling, general and administrative expenses as a percent of revenue increased to 16.8% in 1997 from 15.9% in 1996, primarily due to existing branch expansions and the comparatively higher cost structure of new distribution branches.

Interest expense in 1997 increased $1.2 million, or 34%, from 1996 primarily due to higher average borrowings. Excluding the effects of acquisitions, interest expense decreased $3.0 million, or 86%, primarily due to a reduction in average outstanding borrowings following the sale of the Company's Common Stock in February 1997.

Minority interest expense in 1997 decreased $.1 million compared to the same period in 1996. This decrease was due to the Company's acquisition of the minority interests in three of its distribution subsidiaries in March 1996. Following the acquisition, all of the Company's subsidiaries were wholly-owned.

The effective income tax rate increased to 38.5% in 1997 compared to 38.2% in the prior year. The increase was primarily due to a lower benefit derived from tax exempt investments in 1997 as compared to 1996.

COMPARISON OF YEAR ENDED DECEMBER 31, 1996
WITH YEAR ENDED DECEMBER 31, 1995

Revenue in 1996 increased $89.2 million, or 32%, over 1995. Excluding the effect of acquisitions, revenue increased $23.0 million, or 8%. Such increase was primarily due to increased sales of replacement air conditioners and higher sales due to the expansion of product lines for parts and supplies.

Gross profit in 1996 increased $20.5 million, or 35%, over the prior year. Excluding the effect of acquisitions, gross profit increased $3.6 million, or 6%, primarily as a result of the increase in revenue described above. Gross profit margin increased to 21.7% in 1996 from 21.3% in 1995. Excluding the effect of acquisitions, gross profit margin decreased to 20.9% in 1996 from 21.3% in 1995. This decrease was primarily due to certain vendor price increases in late 1995, which the Company did not begin passing on to customers until late in the first quarter of 1996, and additional price increases in mid-1996, which were not fully passed on to customers in the second and third quarters.

Selling, general and administrative expenses in 1996 increased $14.9 million, or 34%, over 1995, primarily due to selling and delivery costs related to increased sales. Excluding the effect of acquisitions, selling, general and administrative expenses increased $3.2 million, or 7%, also primarily due to revenue increases. Selling, general and administrative expenses as a percent of revenue increased to 15.9% in 1996 from 15.7% in 1995. This increase was due to higher costs as a percent of revenue from acquisitions. Excluding the effect of acquisitions, selling, general and administrative expenses as a percent of revenue decreased to 15.6% in 1996 from 15.7% in 1995.

Interest expense in 1996 decreased $.6 million, or 15%, from 1995, primarily due to lower average interest rates on borrowings. Excluding the effects of acquisitions, interest expense decreased $1.3 million, or 31%. This decrease was primarily due to lower average interest rates on borrowings, interest management activities and repayment of long-term obligations having higher rates of interest.

Minority interest expense in 1996 decreased $1.5 million compared to the same period in 1995. This decrease was due to the Company's acquisition of the minority interests in three of its distribution subsidiaries in March 1996. Following the acquisition, all of the Company's subsidiaries were wholly-owned.

The effective income tax rate increased to 38.2% in 1996 compared to 37.2% in the prior year. The increase was primarily the result of the proportionately larger share of taxable income generated in higher tax rate states in 1996 compared to 1995.

DISCONTINUED OPERATIONS

In November 1997, the Company's Board of Directors approved a plan to divest of its manufacturing operation, Watsco Components, Inc., and its temporary staffing business, Dunhill Staffing Systems, Inc. Income from these discontinued operations, net of income taxes, decreased $1.9 million or 98%, in 1997 as compared to 1996, primarily due to lower shipments in the manufacturing operation. Income from discontinued operations, net of income taxes increased $350,000 or 22%, in 1996 as compared to 1995, primarily due to a 9% increase in revenue.

LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a bank-syndicated revolving credit agreement that provides for borrowings of up to $260 million, expiring on August 8, 2002. Borrowings under the unsecured agreement are used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions. Borrowings under the agreement, which totaled $134.7 million at December 31, 1997, bear interest at primarily LIBOR-based rates plus a spread that is dependent upon the Company's financial performance (LIBOR plus .375% at December 31, 1997). The agreement contains financial covenants with respect to the Company's consolidated net worth, interest and debt coverage ratios and limits capital expenditures and dividends in addition to other restrictions.

At December 31, 1997, the Company had various interest rate swap agreements with an aggregate notional amount of $100 million to manage its net exposure to interest rate changes related to a portion of the borrowings under the revolving credit agreement. The interest rate swap agreements effectively convert a portion of the Company's LIBOR-based variable rate borrowings into fixed rate borrowings. The Company continuously monitors developments in the capital markets and only enters into swap transactions with established counterparties having investment-grade ratings. See Note 10 in the Notes to Consolidated Financial Statements for futher information.

Working capital increased to $257.8 million at December 31, 1997 from $137.9 million at December 31, 1996. This increase was funded primarily by the receipt of net proceeds of approximately $85.2 million from the sale of 3,000,000 shares of the Company's Common Stock in February 1997 and borrowings under the Company's revolving credit agreement.

Cash and cash equivalents increased $5.0 million in 1997. Principal sources of cash were net proceeds from the issuance of common stock, borrowings under the revolving credit agreement and profitable operations. The principal uses of cash were to fund working capital needs, including the addition of inventory to expand the product offerings of both existing and newly acquired locations, finance acquisitions and capital expenditures and repay bank and other debt.

The Company has adequate availability of capital from operations and its revolving credit agreement to fund present operations and anticipated growth, including expansion in its current and targeted market areas. The Company continually evaluates potential acquisitions and has held discussions with a number of acquisition candidates; however, the Company currently has no binding agreement with respect to any acquisition candidates. Should suitable acquisition 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.

NEW ACCOUNTING STANDARDS

The Company does not expect the future adoption of Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," to have a material effect upon the financial position and results of operations in subsequent periods.

YEAR 2000

The Company continues to assess its exposure related to the impact of the Year 2000 date issue. The Year 2000 date issue arises from the fact that many computer programs use only two digits to identify a year in a date field. The Company's key financial and operational systems have been reviewed and, where required, detailed plans have been developed to permit the Company's computer systems to continue to function properly. Management does not expect implementation costs will have a material adverse impact on the Company's financial position, results of operations or cash flows. However, the Company could be adversely impacted by the Year 2000 date issue if suppliers, customers and other businesses do not address this issue successfully. Management continues to assess these risks in order to reduce the impact on the Company.

SAFE HARBOR STATEMENT

This annual report contains statements which, to the extent they are not historical fact, constitute "forward looking statements" under the securities laws. All forward looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from those contemplated or projected, forecasted, estimated, budgeted, expressed or implied by or in such forward looking statements. The forward looking statements in this document are intended to be subject to the safe harbor protection provided under the securities laws.

For additional information identifying some other important factors which may affect the Company's operations and markets and could cause actual results to vary materially from those anticipated in the forward looking statements, see the Company's Securities and Exchange Commission filings, including but not limited to, the discussion included in the Business section of the Company's Form 10-K under the heading "Other Information".

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, (IN THOUSANDS, EXCEPT PER SHARE DATA)	1997	1996	1995
Revenue	$635,218	$365,356	$276,188
Cost of sales	492,252	285,939	217,306
Gross profit	142,966	79,417	58,882
Selling, general and administrative expenses	109,932	58,396	43,489
Operating income	33,034	21,021	15,393
Other income (expense):			
Investment income, net	1,432	517	216
Interest expense	(4,698)	(3,513)	(4,124)
Total other income (expense)	(3,266)	(2,996)	(3,908)
Income from continuing operations before income taxes and minority interests	29,768	18,025	11,485
Income taxes	(11,460)	(6,890)	(4,272)
Minority interests	-	(116)	(1,586)
Income from continuing operations	18,308	11,019	5,627
Income from discontinued operations, net of income taxes	49	1,973	1,623
Net income	$18,357	$12,992	$7,250
Basic earnings per share:			
Income from continuing operations	$1.09	$0.85	$0.61
Income from discontinued operations	-	0.15	0.17
Net income	$1.09	$1.00	$0.78
Diluted earnings per share:			
Income from continuing operations	$1.02	$0.77	$0.54
Income from discontinued operations	-	0.14	0.15
Net income	$1.02	$0.91	$0.69

THE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, (IN THOUSANDS, EXCEPT SHARE DATA)	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,880	$ 2,882
Accounts receivable, net	101,727	51,024
Inventories	173,319	80,309
Other current assets	9,263	5,013
Net assets of discontinued operations	25,892	22,512
Total current assets	318,081	161,740
Property, plant and equipment, net	21,870	8,767
Intangible assets, net	77,388	22,174
Other assets	8,701	4,516
	$ 426,040	$ 197,197
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 958	$ 592
Accounts payable	43,802	15,374
Accrued liabilities	15,562	7,914
Total current liabilities	60,322	23,880
Long-term obligations:		
Borrowings under revolving credit agreement	134,700	48,000
Bank and other debt	2,541	2,355
Total long-term obligations	137,241	50,355
Deferred income taxes and credits	2,879	1,033
Preferred stock of subsidiary	-	2,000
Commitments and contingencies (Notes 10 and 11)		
Shareholders' equity:		
Common Stock, $.50 par value, 15,262,827 and 11,853,738 shares issued and outstanding in 1997 and 1996, respectively	7,631	5,927
Class B Common Stock, $.50 par value, 2,166,454 and 2,178,100 shares issued and outstanding in 1997 and 1996, respectively	1,083	1,089
Paid-in capital	163,996	72,129
Unearned compensation related to outstanding restricted stock	(3,836)	-
Retained earnings	56,724	40,784
Total shareholders' equity	225,598	119,929
	$ 426,040	$ 197,197

THE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE BALANCE SHEETS.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT SHARE DATA)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID-IN CAPITAL	OUTSTANDING RESTRICTED STOCK	RETAINED EARNINGS
BALANCE AT DECEMBER 31, 1994	9,226,102	$4,613	$ 18,515		$23,688
Conversion of debentures	36,604	18	146		
Contribution to 401(k) plan	13,563	7	142		
Issuances from exercise of stock options and warrant	147,056	74	502		
Tax benefit from exercise of stock options			91		
Common stock dividends, $.13 per share					(1,160)
Dividends on 6.5% preferred stock of subsidiary					(130)
Net income					7,250
BALANCE AT DECEMBER 31, 1995	9,423,325	4,712	19,396		29,648
Conversion of debentures	336,249	168	1,339		
Issuance from public offering	2,355,000	1,177	30,935		
Contribution to 401(k) plan	11,373	6	282		
Issuances from exercise of stock options and employee stock purchase plan	425,850	213	2,908		
Tax benefit from exercise of stock options			1,296		
Issuances for acquisitions	1,480,041	740	15,973		
Common stock dividends, $.14 per share					(1,726)
Dividends on 6.5% preferred stock of subsidiary					(130)
Net income					12,992
BALANCE AT DECEMBER 31, 1996	14,031,838	7,016	72,129		40,784
Issuance from public offering	3,000,000	1,500	83,665		
Contribution to 401(k) plan	16,979	8	433		
Issuances from exercise of stock options and employee stock purchase plan	145,477	73	1,738		
Tax benefit from exercise of stock options			713		
Issuances for acquisitions	74,987	37	1,390		
Issuances of restricted shares of Common stock	160,000	80	3,928	(4,008)	
Amortization of unearned compensation				172	
Common stock dividends, $.14 per share					(2,292)
Dividends on 6.5% preferred stock of subsidiary					(125)
Net income					18,357
BALANCE AT DECEMBER 31, 1997	17,429,281	$8,714	$163,996	$(3,836)	$56,724

THE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, (IN THOUSANDS)	1997	1996	1995
Cash flows from operating activities:			
Income from continuing operations	$ 18,308	$ 11,019	$ 5,627
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities of continuing operations:			
Depreciation and amortization	4,799	2,544	1,675
Provision for doubtful accounts	1,329	1,432	1,145
Net investment gains	(1,294)	(35)	(27)
Deferred income tax benefit (provision)	(740)	(371)	118
Noncash stock contribution to 401(k) plan	441	288	149
Minority interests, net of dividends paid	-	116	765
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(9,523)	(8,471)	(3,508)
Inventories	(30,402)	(15,323)	142
Accounts payable and accrued liabilities	1,820	(2,520)	1,286
Other, net	(2,813)	(669)	(500)
Net cash provided by (used in) operating activities of continuing operations	(18,075)	(11,990)	6,872
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(119,450)	(14,886)	(12,987)
Capital expenditures, net	(6,644)	(964)	(1,933)
Net proceeds from sales of marketable securities	2,135	58	3,012
Other investment	(2,750)	-	-
Net cash used in investing activities of continuing operations	(126,709)	(15,792)	(11,908)
Cash flows from financing activities:			
Net borrowings under revolving credit agreements	86,700	7,815	6,361
Repayments of bank and other debt	(13,733)	(5,686)	(364)
Repayments of short-term promissory notes	-	(4,471)	-
Net proceeds from issuances of common stock	86,976	35,233	667
Payments to redeem preferred stock of subsidiaries	(4,413)	-	-
Common stock dividends	(2,292)	(1,726)	(1,160)
Subsidiary preferred stock dividends	(125)	(130)	(130)
Net cash provided by financing activities of continuing operations	153,113	31,035	5,374
Net cash provided by (used in) discontinued operations	(3,331)	(1,767)	588
Net increase in cash and cash equivalents	4,998	1,486	926
Cash and cash equivalents at beginning of year	2,882	1,396	470
Cash and cash equivalents at end of year	$ 7,880	$ 2,882	$ 1,396
Supplemental disclosures:			
Income taxes paid	$ 12,325	$ 6,023	$ 4,999
Interest paid	4,787	4,204	4,186

THE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THESE STATEMENTS.

WATSCO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE DATA)

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Watsco, Inc. ("Watsco") and its subsidiaries (the "Company") is the largest distributor of air conditioning and heating equipment and related parts and supplies in the United States. The Company operates in 22 states, with leading positions in Florida, Texas and California, the three largest markets in the country.

Basis of Consolidation

The consolidated financial statements include the accounts of Watsco and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

The Company recognizes revenue upon shipment of products.

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventories

The Company's inventories are stated at the lower of cost (first-in, first-out method) or market.

Property, Plant and Equipment

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is provided on the straight-line method. Buildings and improvements are being depreciated over estimated useful lives ranging from 2-40 years. Estimated useful lives for other depreciable assets range from 3-12 years.

Intangible Assets

Intangible assets, net of accumulated amortization of $3,463 and $2,216 at December 31, 1997 and 1996, respectively, consists of goodwill arising from the excess of the cost of acquired businesses over the fair value of their net assets. Goodwill is amortized on a straight-line basis over 40 years. The Company periodically reviews goodwill based on expectations of undiscounted cash flows and operating income to assess whether recorded amounts are fully recoverable. Amortization expense related to goodwill amounted to $1,247, $564 and $366 in 1997, 1996 and 1995, respectively.

Long-Lived Assets

During 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for Long-Lived Assets and for Long-Lived Assets to be Disposed of". The adoption of SFAS No. 121 did not have a material effect on the Company's consolidated financial position or results of operations in 1996.

Income Taxes

Deferred tax assets and liabilities reflect the temporary differences between the financial statement and income tax bases of assets and liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation

As described in Note 7, the Company has elected to follow the accounting provisions of Accounting Principles Board ("APB") Opinion No. 25 for stock-based compensation and to furnish the pro forma disclosures required under SFAS No. 123, "Accounting for Stock-Based Compensation".

Earnings Per Share

In February 1997, SFAS No. 128, "Earnings Per Share" was issued. SFAS No. 128 replaces the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share is computed by dividing net income, less subsidiary preferred stock dividends, by the total of the weighted average number of shares outstanding. Subsidiary preferred stock dividends were $125, $130 and $130, for 1997, 1996 and 1995, respectively. Diluted earnings per share additionally assumes, if dilutive, conversion of the Company's convertible subordinated debentures which matured in September 1996, and any added dilution from common stock equivalents. Interest expense attributable to assumed conversion of convertible debentures was $70 and $108 in 1996 and 1995, respectively. SFAS No. 128 became effective beginning with the fourth quarter of 1997 and requires restatement of all prior periods presented. Accordingly, all earnings per share data presented have been restated to conform with SFAS No. 128.

Shares used to calculate earnings per share (restated in 1995 to reflect a three-for-two stock split effected on June 14, 1996, see Note 9) are as follows:

YEARS ENDED DECEMBER 31,	1997	1996	1995
Weighted average shares outstanding	16,798,695	12,861,456	9,295,945
Dilutive stock options and warrants	1,054,765	1,096,739	799,177
Assumed conversion of debentures	-	233,485	360,783
Shares for diluted earnings per share	17,853,460	14,191,680	10,455,905

New Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130, "Reporting Comprehensive Income," which establishes standards for reporting and display of comprehensive income and its components. In June 1997, the FASB also issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which establishes standards for reporting information about a company's operating segments and related disclosures about its products, services, geographic areas of operations and major customers. The statements are required to be adopted in 1998. The Company believes that the adoption of these statements will not be material to the Company's consolidated financial position or results of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

2. INVENTORIES

Inventories primarily consist of air conditioning and heating equipment and related parts and supplies. Purchases from one of the Company's suppliers comprised 32% of all purchases in 1997, while purchases from the Company's top three suppliers comprised 50% of all purchases in 1997.

3. DISCONTINUED OPERATIONS

In November 1997, the Company's Board of Directors approved a plan to dispose of its manufacturing operation, Watsco Components, Inc. ("Components"), and its temporary staffing business, Dunhill Staffing Systems, Inc. ("Dunhill"). Accordingly, the results of Components and Dunhill have been accounted for as discontinued operations and the accompanying consolidated financial statements presented herein have been restated to report separately the net assets, net cash flows and operating results of these discontinued operations.

Unaudited summarized results for the discontinued operations are as follows:

YEARS ENDED DECEMBER 31,	1997	1996	1995
Revenue	$67,231	$60,033	$54,820
Income before income taxes	$ 80	$ 3,193	$ 2,585
Income taxes	(31)	(1,220)	(962)
Net income	$ 49	$ 1,973	$ 1,623

Income before income taxes includes allocated interest expense of $429 and $140 in 1997 and 1996, respectively. Interest expense was allocated to discontinued operations based on a ratio of net assets of discontinued operations to the total Company's consolidated net assets.

Net assets for the discontinued operations are presented below:

DECEMBER 31,	1997	1996
Accounts receivable, net	$ 8,952	$ 8,499
Inventories	8,761	7,328
Other current assets	2,411	3,438
Property, plant and equipment, net	7,197	7,407
Other assets	3,667	1,680
Current liabilities	(4,491)	(5,042)
Bank and other debt	(605)	(798)
Net assets of discontinued operations	$25,892	$22,512

4. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net, consists of :

DECEMBER 31,	1997	1996
Land, buildings and improvements	$10,569	$ 3,134
Machinery and equipment	13,615	5,734
Furniture and fixtures	11,905	5,308
	36,089	14,176
Less: accumulated depreciation and amortization	(14,219)	(5,409)
	$21,870	$8,767

5. LONG-TERM OBLIGATIONS

Revolving Credit Agreements

In August 1997, the Company amended and restated its existing revolving credit agreement with a syndicate of banks to provide for borrowings of up to $260 million, expiring on August 8, 2002. Borrowings under the revolving credit agreement are unsecured and bear interest at primarily LIBOR-based rates plus a spread that is dependent upon the Company's financial performance (LIBOR plus .375% at December 31, 1997). The agreement contains financial covenants with respect to the Company's consolidated net worth, interest and debt coverage ratios, and limits capital expenditures and dividends in addition to other restrictions. At December 31, 1997 and 1996, the weighted average interest rates for the borrowings under the revolving credit agreements were 6.9% and 6.2%, respectively.

Bank and Other Debt

Bank and other debt (net of current portion) of $2,541 and $2,355 at December 31, 1997 and 1996, respectively, primarily consists of promissory notes issued for acquisitions. Interest rates on bank and other debt range from 6.5% to 8.0% and mature at varying dates through 2002.

Annual maturities of long-term obligations for the years subsequent to December 31, 1997 are as follows: $958 in 1998; $757 in 1999; $455 in 2000; $347 in 2001 and $982 in 2002.

6. INCOME TAXES

The income tax provision consists of :

YEARS ENDED DECEMBER 31,	1997	1996	1995
Federal	$ 9,697	$5,864	$3,733
State	1,763	1,026	539
	$11,460	$6,890	$4,272
Current	$12,200	$7,261	$4,154
Deferred	(740)	(371)	118
	$11,460	$6,890	$4,272

A reconciliation of the provision for federal income taxes from the federal statutory income tax rate to the effective income tax rate as reported is as follows:

YEARS ENDED DECEMBER 31,	1997	1996	1995
Federal statutory rate	35.0%	35.0%	34.0%
State income taxes,			
net of federal benefit	3.8	3.5	2.9
Other, net	(.3)	(.3)	.3
	38.5%	38.2%	37.2%

The following is a summary of the significant components of the Company's deferred tax assets and liabilities:

DECEMBER 31,	1997	1996
Deferred tax assets:		
Included in other current assets -		
Accounts receivable reserves	$ 1,238	$ 618
Capitalized inventory costs		
and inventory reserves	4,334	2,213
Other	203	121
	5,775	2,952
Included in other noncurrent assets -		
Net operating loss carryforwards of subsidiary	569	721
Other	231	276
	800	997
Deferred tax liabilities:		
Included in noncurrent liabilities -		
Depreciation and amortization	(461)	(86)
Deductible goodwill	(555)	(141)
Other	(1,336)	(239)
	(2,352)	(466)
Total net deferred tax assets	$ 4,223	$3,483

A subsidiary of the Company has available net operating loss carryforwards (NOLs) of approximately $1,857 which are available to offset future taxable income in equal annual amounts of approximately $232 through 2005. SFAS No. 109, "Accounting for Income Taxes", requires that the tax benefit of such NOLs be recorded as an asset to the extent that management assesses the utilization of such NOLs to be more likely than not. Management has determined, based on the subsidiary's recent taxable income and expectations for the future, that taxable income of the subsidiary will be sufficient to fully utilize the available NOLs.

7. STOCK OPTION AND BENEFIT PLANS

Stock Option Plans

At December 31, 1997, the Company has two stock option plans. Under the 1991 Stock Option Plan (the "1991 Plan"), options for an aggregate of 3,500,000 shares of Common Stock and Class B Common Stock may be granted. Options as to 1,923,396 shares of Common Stock and 932,581 shares of Class B Common Stock have been granted through December 31, 1997. The terms of the 1991 Plan require the option price per share be equivalent to the fair market value of the underlying common stock on the date of grant. Options under the 1991 Plan are for a term of ten years and are exercisable as determined by the Option Committee of the Board of Directors. The 1983 Executive Stock Option Plan (the "1983 Plan") expired in February 1993; therefore, no additional options may be granted. Options as to 52,773 shares of Common Stock and 4,598 shares of Class B Common Stock are outstanding under the 1983 Plan at December 31, 1997. Options under the 1983 Plan are for a term of ten years and, generally, may be exercised in annual 20% installments beginning one year after grant. Under either plan, the Option Committee may waive the vesting period and permit options to be exercised immediately.

Under the stock option plans, there were 644,023 shares of common stock reserved for future grants as of December 31, 1997. A summary of option transactions is shown below:

	1997 OPTIONS	1997 WEIGHTED-AVERAGE EXERCISE PRICE	1996 OPTIONS	1996 WEIGHTED-AVERAGE EXERCISE PRICE	1995 OPTIONS	1995 WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding on January 1,	1,498,531	$ 7.60	1,583,994	$ 5.88	1,599,429	$5.73
Granted	571,500	24.67	293,500	18.78	61,500	8.76
Exercised	(95,387)	8.14	(366,894)	5.61	(46,106)	4.39
Forfeited	(5,141)	14.69	(12,069)	11.07	(30,829)	5.99
At December 31,	1,969,503	$18.20	1,498,531	$ 7.60	1,583,994	$5.88
Options exercisable at end of year	1,214,739	$10.09	1,071,605	$ 6.02	805,353	$5.65

The following sets forth certain information with respect to those stock options at December 31, 1997:

	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT DECEMBER 31, 1997	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	NUMBER OUTSTANDING AT DECEMBER 31, 1997	WEIGHTED-AVERAGE EXERCISE PRICE
$3.49 - $4.99	47,244	$ 3.71	3.7 years	47,244	$ 3.71
$5.00 - $9.99	1,053,020	6.02	5.4 years	960,440	5.90
$10.00 - $19.99	230,239	13.30	8.2 years	126,489	11.90
$20.00 - $30.38	639,000	24.30	9.3 years	80,566	22.38
	1,969,503	$18.20	7.5 years	1,214,739	$10.09

Employee Stock Purchase Plan

Effective July 1, 1996, the Company adopted the Watsco, Inc. Qualified Employee Stock Purchase Plan under which full-time employees with at least 90 days of service may purchase up to an aggregate of 400,000 shares of the Company's Common Stock. The plan allows participating employees to purchase, through payroll deductions or lump-sum contribution, shares of the Company's Common Stock at 85% of the fair market value at specified times subject to certain restrictions. During 1997 and 1996, employees purchased 53,258 and 89,367 shares of Common Stock at an average price of $21.47 and $17.46 per share, respectively. At December 31, 1997, 257,375 shares remained available for purchase under the plan.

The Company accounts for its stock option plans and employee stock purchase plan in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. Accordingly, no compensation cost has been recognized in the consolidated statements of income. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair market value at the grant dates for awards under the stock option plans and purchases under the employee stock purchase plan consistent with the method of SFAS No. 123, the Company's pro forma net earnings and earnings per share would be as follows:

YEARS ENDED DECEMBER 31,		1997	1996
Net income	As reported	$18,357	$12,992
	Pro forma	17,369	12,564
Basic earnings per share	As reported	$1.09	$1.00
	Pro forma	$1.03	$0.97
Diluted earnings per share	As reported	$1.02	$0.91
	Pro forma	$0.98	$0.89

The Company's pro forma information above is not representative of the pro forma effect of the fair value provisions of SFAS No. 123 on the Company's net income in future years because pro forma compensation expense related to grants made prior to 1995 may not be taken into consideration.

The weighted-average fair value at date of grant for stock options granted during 1997 and 1996 was $11.50 and $5.72, respectively, and was estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

YEARS ENDED DECEMBER 31,	1997	1996
Expected life in years	6.0	6.0
Risk-free interest rate	5.5%	6.3%
Expected volatility	42.0%	30.0%
Dividend yield	.5%	.7%

The weighted-average fair value of shares purchased under the employee stock purchase plan was determined using the per share quoted market value of the Common Stock used in determining the purchase price to plan participants, excluding any discount.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including expected stock price volatility. The Company's stock-based compensation arrangements have characteristics significantly different from those of traded options, and changes in the subjective input assumptions used in valuation models can materially affect the fair value estimate. As a result, the existing models may not necessarily provide a reliable single measure of the fair value of its stock-based compensation.

Restricted Stock

During 1997, certain employees were granted an aggregate of 160,000 shares of the Company's Common Stock, subject to certain significant restrictions. The restrictions lapse upon attainment of retirement age or under other circumstances. The unearned compensation resulting from the grant of restricted shares is reported as a reduction to shareholders' equity in the consolidated balance sheet and is being amortized to earnings over the period from date of issuance to the respective retirement age of each employee. Total amortization expense related to the restricted shares amounted to $172 for the year ended December 31, 1997.

401(k) Plan

The Company has a profit sharing retirement plan for its employees which is qualified under Section 401(k) of the Internal Revenue Code. The Company makes an annual matching contribution based on a percentage of eligible employee compensation deferrals. The contribution is made in cash or by the issuance of the Company's Common Stock to the plan on behalf of its employees. For the years ended December 31, 1997, 1996 and 1995, the aggregate contribution to the plan was $457, $295 and $265 respectively.

8. ACQUISITIONS

The Company has completed various acqusitions of wholesale distributors of residential air conditioning, heating and refrigeration products. All acquisitions have been accounted for under the purchase method of accounting and, accordingly, their results of operations have been included in the consolidated statements of income beginning on their respective dates of acquisition.

In January 1997, the Company completed the acquisition of the common stock of Coastline Distribution, Inc. and the purchase of substantially all of the operating assets of four additional operations from Inter-City Products Corporation (USA) for cash consideration of approximately $21.7 million.

In March 1997, the Company completed the purchase of substantially all of the operating assets and assumption of certain liabilities of two distribution operations from Carrier Corporation, Comfort Products Distributing and Central Plains Distributing, for cash consideration of approximately $26.3 million.

In September 1997, the Company completed the purchase of all the issued and outstanding capital stock of Baker Distributing Company for cash consideration (net of cash acquired) of approximately $59.1 million, which is subject to adjustment upon the completion of an audit.

During 1997, the Company completed nine other acquisitions for aggregate consideration of approximately $13.8 million. The acquisitions were made either in the form of the purchase of the outstanding common stock or the purchase of the net assets and business of the respective sellers. Consideration consisted of cash payments of approximately $12.4 million and the issuance 74,987 shares of Common Stock having a fair value of $1.4 million.

The unaudited pro forma information of the Company as if the above acquisitions had occurred on January 1, 1996 is as follows:

YEARS ENDED DECEMBER 31,	1997	1996
Revenue	$805,505	$755,170
Income from continuing operations	$ 20,888	$ 15,162
Diluted earnings per share from continuing operations	$ 1.16	$ 0.87

The unaudited pro forma information is not necessarily indicative of either the results of operations that would have occurred had the above companies been acquired on January 1, 1996 for the years presented or of future results of operations.

In March 1996, the Company and Rheem Manufacturing Company ("Rheem") completed a transaction pursuant to a Stock Exchange Agreement and Plan of Reorganization whereby the Company acquired Rheem's minority ownership interests in three of the Company's distribution subsidiaries in exchange for 1,446,542 unregistered shares of the Company's Common Stock having an estimated fair value of $16.1 million. Following this transaction, these subsidiaries became wholly-owned by the Company.

Also during 1996, the Company completed three other acquisitions of wholesale distrbutors of air conditioners and related parts and supplies for aggregate consideration of $17.1 million. The acquisitions were made either in the form of the purchase of all of the outstanding common stock or the purchase of the net assets and business of the respective sellers. Consideration for these acquisitions consisted of cash payments aggregating $14.9 million, the issuance of 33,499 shares of Common Stock having a fair value of $.7 million, and the issuance of a long-term promissory note of $1.5 million.

Cash payments for the acquisitions were funded from existing cash or from borrowings under revolving credit agreements. The excess of the aggregate purchase price over the net assets acquired is being amortized on a straight-line basis over 40 years.

The preliminary price allocations for business combinations for the years ended December 31 were as follows:

	1997	1996	1995
Accounts receivable, net	$42,509	$ 7,882	$ 6,743
Inventories	62,608	11,887	11,109
Property, plant and equipment, net	9,959	2,908	632
Intangible assets	56,457	6,643	4,225
Other assets	2,082	306	588
Minority interests	-	10,701	-
Accounts payable and accrued expenses	(36,641)	(5,503)	(3,296)
Long-term debt assumed	(13,684)	(3,225)	(7,014)
Preferred stock	(2,413)	-	-
Fair value of common stock issued	(1,427)	(16,713)	-
Cash used in acquisitions, net of cash acquired	$119,450	$14,886	$12,987

9. SHAREHOLDERS' EQUITY

The authorized capital stock of the Company is 40,000,000 shares of Common Stock and 4,000,000 shares of Class B Common Stock. Common Stock and Class B Common Stock share equally in the earnings of the Company and are identical in most other respects except (i) Common Stock has limited voting rights, each share of Common Stock being entitled to one vote on most matters and each share of Class B Common Stock being entitled to ten votes; (ii) shareholders of Common Stock are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common Stock without paying a cash dividend on Class B Common Stock and no cash dividend may be paid on Class B Common Stock unless at least an equal cash dividend is paid on Common Stock and (iv) Class B Common Stock is convertible at any time into Common Stock on a one for one basis at the option of the shareholder.

In February 1997, the Company completed the sale of 3,000,000 shares of Common Stock resulting in net proceeds of approximately $85.2 million.

On May 20, 1996 and April 18, 1995, the Company's Board of Directors authorized a three-for-two stock split for both classes of the Company's common stock effected in the form of a 50% stock dividend payable on June 14, 1996 to shareholders of record as of May 31, 1996 and on May 15, 1995 to shareholders of record as of April 28, 1995, respectively. Shareholders' equity has been restated to give retroactive effect to the stock splits for all periods presented by reclassifying from retained earnings or paid-in capital to the common stock accounts the par value of the additional shares arising from the splits. In addition, all references in the consolidated financial statements and notes thereto to number of shares, per share amounts, stock option data and market prices of both classes of the Company's common stock have been restated.

10. FINANCIAL INSTRUMENTS

Recorded Financial Instruments

The Company's recorded financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, the current portion of long-term obligations, borrowings under revolving credit agreement, debt instruments included in other long-term obligations and the preferred stock of subsidiary.

At December 31, 1997 and 1996, the fair values of cash and cash equivalents, accounts receivable, accounts payable and the current portion of long-term obligations approximated their carrying values due to the short term nature of these instruments.

The fair values of borrowings under the revolving credit agreement and debt instruments included in long-term obligations also approximate their carrying value based upon interest rates available to the Company for similar instruments with consistent terms and remaining maturities. The fair value of the preferred stock of subsidiary is not determinable as the security has no quoted market price and, because the security contains certain unique terms, conditions, covenants and restrictions, there are no identical securities that have quoted market prices.

Off-Balance Sheet Financial Instruments

The Company uses interest rate swaps to alter the interest rate risk profile related to outstanding borrowings under its revovling credit agreement, thereby altering the Company's exposure to changes in interest rates. The Company does not hold or issue such financial instruments for trading purposes. Under the swap agreements, the Company agrees to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a notional principal amount. Any differences paid or received on interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation.

At December 31, 1997, the Company had interest rate swap agreements with an aggregate notional amount of $100 million effectively converting a portion of the Company's LIBOR-based variable rate borrowings into fixed rate borrowings at rates ranging from 6.3% to 6.5%. At December 31, 1997, the Company's interest rate swap portfolio had a negative fair value of $1.6 million.

At December 31, 1997, the Company is contingently liable under standby letters of credit aggregating approximately $1.6 million that were primarily used as collateral for promissory notes issued in connection with certain acquisitions made during 1996. The Company does not expect any material losses to result from the issuance of the standby letters of credit because performance is not expected to be required. Accordingly, the estimated fair value of these instruments is zero.

Concentrations of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its temporary cash investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution or investment. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different geographical regions. The Company establishes and monitors an allowance for doubtful accounts based on the credit risk of specific customers, historical trends and other information. At December 31, 1997 and 1996, the allowance for doubtful accounts for continuing operations was approximately $5.6 million and

$2.9 million, respectively. Although the Company believes its allowance is sufficient, the amount the Company ultimately realizes could differ materially in the near-term from the amount reported above.

11. COMMITMENTS AND CONTINGENCIES

At December 31, 1997, the Company is obligated under non-cancelable operating leases of real property and equipment used in its continuing operations for minimum annual rentals as follows: $16,457 in 1998; $13,122 in 1999; $10,391 in 2000; $7,839 in 2001; $5,704 in 2002 and $12,661 thereafter. Rental expense for continuing operations for the years ended December 31, 1997, 1996 and 1995 was $12,102, $6,216 and $4,861, respectively.

The Company is from time to time involved in routine litigation. Based on the advice of legal counsel, the Company believes that such actions presently pending will not have a material adverse impact on the Company's consolidated financial position or results of operations.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of Watsco, Inc.:

We have audited the accompanying consolidated balance sheets of Watsco, Inc. (a Florida corporation) and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watsco, Inc. and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Miami, Florida,
February 11, 1998.

WATSCO, INC. AND SUBSIDIARIES
QUARTERLY FINANCIAL DATA (UNAUDITED)

(IN THOUSANDS, EXCEPT PER SHARE DATA)	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	TOTAL
YEAR ENDED DECEMBER 31, 1997:					
Revenue	$96,271	$164,703	$189,462	$184,782	$635,218
Gross profit	22,057	35,810	41,575	43,524	142,966
Income from continuing operations	2,061	5,988	6,845	3,414	18,308
Income from discontinued operations, net of income taxes	221	376	140	(688)	49
Net income	$ 2,282	$ 6,364	$ 6,985	$ 2,726	$ 18,357
Diluted earnings per share from continuing operations(2)	$0.12	$0.33	$0.37	$0.18	$1.02
YEAR ENDED DECEMBER 31, 1996:					
Revenue	$65,200	$103,872	$108,469	$ 87,815	$365,356
Gross profit	14,205	22,255	23,666	19,291	79,417
Income from continuing operations	987	3,740	4,322	1,970	11,019
Income from discontinued operations, net of income taxes	316	508	688	461	1,973
Net income	$ 1,303	$ 4,248	$ 5,010	$ 2,431	$ 12,992
Diluted earnings per share from continuing operations(1)(2)	$0.08	$0.25	$0.29	$0.13	$0.77

(1) EARNINGS PER SHARE INFORMATION HAS BEEN RESTATED TO GIVE EFFECT TO THE THREE-FOR-TWO STOCK SPLIT EFFECTED ON JUNE 14, 1996.

(2) QUARTERLY EARNINGS PER SHARE ARE CALCULATED ON AN INDIVIDUAL BASIS AND, BECAUSE OF ROUNDING AND CHANGES IN THE WEIGHTED AVERAGE SHARES OUTSTANDING DURING THE YEAR, IN SUMMATION OF EACH QUARTER MAY NOT EQUAL THE AMOUNT CALCULATED FOR THE YEAR AS A WHOLE.

INFORMATION ON COMMON STOCK

The Company's Common Stock is traded on the New York Stock Exchange under the symbol WSO and its Class B Common Stock is traded on the American Stock Exchange under the symbol WSOB. The following table indicates the high and low prices of the Company's Common Stock and Class B Common Stock, as reported by the New York Stock Exchange and American Stock Exchange, respectively, and dividends paid per share for each quarter during the years ended December 31, 1997, 1996 and 1995. At March 25, 1998, excluding shareholders with stock in street name, the Company had approximately 600 Common Stock shareholders of record and 340 Class B shareholders of record.

	COMMON		CLASS B		CASH DIVIDENDS	
	HIGH	LOW	HIGH	LOW	COMMON	CLASS B
YEAR ENDED DECEMBER 31, 1997:						
Fourth quarter	$31-7/16	$22-1/2	$29-7/8	$24	$.035	$.035
Third quarter	31-3/8	24-1/2	31	24-1/2	.035	.035
Second quarter	29	22-11/16	28-1/4	23-1/2	.035	.035
First quarter	34-3/8	22-3/4	34	25	.035	.035
YEAR ENDED DECEMBER 31, 1996:						
Fourth quarter	$29-1/8	$18-3/8	$29-1/2	$18-7/8	$.035	$.035
Third quarter	22-1/4	16-1/8	21-7/8	15-3/4	.035	.035
Second quarter	21	17-1/8	20-1/4	17-7/8	.033	.033
First quarter	17-3/8	11-1/4	16-7/8	11	.033	.033
YEAR ENDED DECEMBER 31, 1995:						
Fourth quarter	$11-7/8	$10-7/8	$11-5/8	$10-5/8	$.033	$.033
Third quarter	11-5/8	8-7/8	11-1/8	9	.033	.033
Second quarter	9-1/8	7-7/8	9	7-3/4	.033	.033
First quarter	8	7	7-3/4	7	.029	.029

EXHIBIT 21

REGISTRANT'S SUBSIDIARIES

The following table sets forth, at March 30, 1998, the Registrant's significant subsidiaries and other associated companies and their respective incorporation jurisdictions. The Registrant owns 100% of the voting securities of each of the subsidiaries listed below. There are no subsidiaries not listed in the table, which would, in the aggregate, be considered significant.

ACTIVE SUBSIDIARIES:	STATE OF INCORPORATION
Distribution:	
A&C Distributors, Inc. (d/b/a Comfortmaker Distribution)	Florida
Air Systems Distributors, Inc.	Florida
Baker Distributing Co.	Florida
Central Air Conditioning Distributors, Inc.	North Carolina
Central Plains Distributing, Inc.	Nebraska
Coastline Distribution, Inc.	Florida
Comfort Products Distributing, Inc.	Missouri
Comfort Supply, Inc.	Delaware
Gemaire Distributors, Inc.	Florida
H.B. Adams Distributors, Inc.	Florida
Heating & Cooling Supply, Inc.	California
Nevada Supply, Inc.	Nevada
Three States Supply Company, Inc.	Tennessee
Weathertrol Supply Company	Texas
William Wurzbach Co. Inc.	California
Other:	
Dunhill Personnel System of New Jersey, Inc.	New Jersey
Dunhill Staffing Systems, Inc.	Delaware
Dunhill Staffing Systems of Milwaukee, Inc.	Wisconsin
Dunhill Temporary Systems, Inc.	New York
Dunhill Temporary Systems of Indianapolis, Inc.	Indiana
P.E./Del Mar, Inc.	Florida
Watsco Components, Inc.	Florida

EXHIBIT 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statements on Form S-3 (Nos. 33-7758, 33-37982, 333-00371, 333-01441 and 333-19803) and in the Registration Statements on Form S-8 (Nos. 33-6229, 33-72798 and 333-10363).

ARTHUR ANDERSEN LLP

Miami, Florida,
March 30, 1998.

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE WATSCO, INC. FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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12-MOS
DEC-31-1997
DEC-31-1997
7,880
0
107,279
5,552
173,319
318,081
36,089
14,219
426,040
60,322
2,541
0
0
8,714
216,884
426,040
635,218
635,218
492,252
492,252
108,603
1,329
3,266
29,768
11,460
18,308
49
0
0
18,357
1.09
1.02