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 and Exchange Act of 1934

For the Fiscal Year Ended December 31, 2001

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) 714-4100

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 l0-K or any amendment to this Form l0-K. [ ]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 14, 2002 was approximately $387 million.

The number of shares of common stock outstanding as of March 14, 2002 was 23,328,446 shares of Common Stock, excluding treasury shares of 3,505,450, and 3,259,951 shares of Class B Common Stock, excluding treasury shares of 48,263.

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, 2001, 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, 2001

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 business and acquisition strategies. 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 independent distributor of air conditioning, heating, and refrigeration equipment and related parts and supplies ("HVAC") in the United States. The Company has two business segments - the HVAC distribution ("Distribution") segment, which accounted for 96% of 2001 revenue and presently operates from 284 locations in 30 states and a national temporary staffing and permanent placement services ("Staffing") segment, which accounted for 4% of 2001 revenue. The Company's revenue has increased from $80 million in 1989 to over $1.2 billion in 2001 via a strategy of acquisitions and internal growth.

The Company's principal executive offices are located at 2665 South Bayshore Drive, Suite 901, Coconut Grove, Florida 33133, and its telephone number is (305) 714-4100. The Company's corporate website is www.watsco.com, and e-mail may be sent to the Company at mweber@watsco.com.

Residential Central Air Conditioning, Heating and Refrigeration 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 United States is approximately $20 billion with unitary equipment shipments having grown at an annual rate of 4% since 1990. Residential central air conditioners are manufactured primarily by seven major companies that together account for approximately 90% of all units shipped in the United States each year. These companies are: Carrier Corporation ("Carrier"), a subsidiary of United Technologies Corporation, Goodman Manufacturing Corporation, Rheem Manufacturing Company ("Rheem"), American Standard Companies Inc. ("American Standard"), York International Corporation ("York"), Lennox International, Inc. and Nordyne Corporation ("Nordyne"), a subsidiary of Nortek Corporation. These manufacturers distribute their products through a combination of factory-owned and 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 (including manufactured housing) markets. The replacement market has increased substantially in size and importance over the past ten years 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 industry data, over 120 million central air conditioning units and warm air gas furnaces have been installed in the United States in the past 20 years. Many units installed during this period have reached the end of their useful lives, thus providing a growing and substantial replacement market. The mechanical life of central air conditioning and warm-air gas furnaces varies by geographical region due to usage and is estimated to range from 8 to 20 years.

The Company also sells products to the refrigeration market. 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, a subsidiary of Emerson Electric Co., Tecumseh Products Company, and The Manitowoc Company, Inc.

Business Strategy

The Company's business strategy includes five primary concepts: (i) implement programs to build market share in existing markets, (ii) complete strategic acquisitions to expand in existing markets or to extend the Company's geographic reach into new markets, (iii) leverage the fixed-cost investments of the Company's existing infrastructure by obtaining new or expanded territories from the grant of distribution rights by manufacturers, (iv) implement initiatives to streamline operations, reduce cost structures and improve operating margins of both acquired and existing businesses and (v) develop and implement technology strategies that compete favorably in the marketplace.

Strategy in Existing Markets The Company's strategy for growth in existing markets focuses on satisfying the needs of the higher growth, higher margin replacement market, where customers generally demand immediate, convenient and reliable service. In response to this need, the Company's focus is to (i) offer expansive product lines, including all equipment, parts and supplies necessary to install or repair a central air conditioner, furnace or refrigeration system, (ii) maintain multiple warehouse locations in a single metropolitan market for increased customer convenience, (iii) maintain well-stocked inventories to ensure that customer orders are filled in a timely manner, (iv) provide a high degree of technical expertise at the point of sale and (v) develop and implement technological strategies to further enhance customer service capabilities. The Company believes these concepts provide a competitive advantage over smaller, lesser-capitalized competitors who are unable to commit resources to open additional locations, implement technological business solutions, provide the same variety of products as the Company, maintain the same inventory levels or attract the wide range of expertise that is required to support a diverse product offering. The Company also believes it has a competitive advantage over factory-owned distributors who typically do not maintain extensive inventories of parts and supplies and whose limited number of warehouse locations make it difficult to meet the time-sensitive demands of the replacement market.

In addition to the replacement market, the Company sells to the homebuilding and manufactured housing markets. 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 these markets.

The Company has also developed private-label brand strategies as a means to obtain market share and grow revenue. Historically, the Company's ability to expand product offerings of HVAC equipment has been dependent on the granting of distribution rights by the industry's major manufacturers. In 1999, the Company introduced a private-label brand of equipment, "Grandaire," in 87 locations of one of its subsidiaries located in the Southeast United States. Based on the successful launch of this value-oriented brand, the Company pursued and has executed an exclusive licensing arrangement with Whirlpool Corporation, the nation's leading manufacturer of appliances. Under this agreement, the Company intends to introduce a line of Whirlpool-branded HVAC equipment targeted at both the replacement and new homebuilding markets. Currently, the Company is undergoing a manufacturer-selection process which is expected to be completed during 2002. The launch of the Whirlpool-brand products is expected to occur in late 2002 or early 2003.

Acquisition Strategy The Company's acquisition strategy is focused on acquiring businesses that complement the Company's presence in existing markets or establish a presence in new markets. Since 1989, the Company has acquired 42 distributors of air conditioning, heating and refrigeration products, 12 of which operate as primary operating subsidiaries of the Company. The other smaller distributors acquired have been integrated into the Company's primary operating subsidiaries.

Distribution Rights The Company actively seeks new or expanded territories of distribution from the major equipment manufacturers. The Company maintains significant relationships with Carrier, Rheem, Nordyne, York and American Standard.

Operating Philosophy The Company's operating subsidiaries operate in a manner that recognizes the long-term relationships established between the distributors and their customers. Generally, the Company preserves 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.

The Company maintains a highly specialized functional support staff at its corporate headquarters to support the individual operating subsidiaries' strategies for growth in their representative markets. Such functional support includes specialists in finance, information technology, accounting, human resources, product procurement, treasury and working capital management, tax planning, risk management and safety. The Company targets certain general and administrative expenses for cost savings initiatives that leverage the Company's overall volume and improve operating efficiencies.

In line with this operating philosophy, the Company implemented several initiatives during 2001 and 2000 to improve operating efficiency and enhance profitability. As a result of these initiatives, the Company closed certain under performing locations and reduced market overlap, disposed of inventory related to discontinued product lines, eliminated other nonproductive SKUs, integrated operations of certain subsidiaries and exited certain business relationships. For additional information see Note 9 to the Consolidated Financial Statements and Form 8-K's filed with the Securities and Exchange Commission on January 22, 2001 and October 30, 2001.

Technology Strategy The Company's technology strategies include the: (i) implementation of effective point-of-sale systems that allow timely and effective customer service, including up-to-date pricing and inventory availability, (ii) enabling connectivity by customers to the Company's operating subsidiaries operating software and (iii) a web site, ACDoctor.com, which provides homeowners, businesses and HVAC contractors useful information and a variety of services.

In addition to point-of-sale systems at each operating location, the Company's subsidiaries have operating software that allows customers to access the Company's systems on-line 24 hours a day, 7 days a week to search for desired products, verify inventory availability, obtain pricing, place orders, check order status, schedule pickup or delivery times and make payments.

ACDoctor.com, provides homeowners, businesses and HVAC contractors useful information in areas that broaden the consumer's product knowledge. The site highlights new products and allows homeowners and businesses to locate, select and hire a licensed contractor. The primary functionality of the site provides consumers a choice of contractors in their area that can service their air conditioning and heating systems. In addition, as part of their membership subscription, contractors also get their own customized website, which is linked to consumer inquiries for contractor services.

Summary The following table summarizes the number of distribution locations and states represented at December 31 for each of the last ten years and the Company's consolidated revenue for each year:

	Locations	States Represented	Revenue ($'s in millions)
1992	32	5	$ 172
1993	47	6	209
1994	50	7	260
1995	69	10	308
1996	101	15	400
1997	268	22	680
1998	308	23	1,062
1999	315	30	1,250
2000	300	30	1,310
2001	284	30	1,239

DESCRIPTION OF BUSINESS

Distribution Segment

Products The Company sells an expansive line of products and maintains sufficient inventory levels to meet its customers' immediate needs. The Company seeks to provide products a contractor would generally require when installing or repairing a central air conditioner, furnace or refrigeration system. The products distributed by the Company in 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, commercial air conditioning and heating equipment and systems ranging from 20 to 400 tons, and other specialized equipment; (ii) parts, including replacement compressors, evaporator coils, thermostats, motors and other component parts; and (iii) supplies, including insulation material, refrigerants, ductwork, grills, registers, sheet metal, tools, copper tubing, concrete pads, tape, adhesives and other ancillary supplies.

---

* 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.

Sales of air conditioning and heating equipment accounted for approximately 52% of revenue for the year ended December 31, 2001. Sales of parts and supplies (currently representing over 1,500 different vendors) comprised 44% of revenue.

Distribution and Sales The Company currently operates from 284 locations, most
- ----------------------
of which are located in regions that 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 658 trucks or making the products available for pick-up at the location nearest to the customer. The Company has over 317 commissioned salespeople with an average of more than 10 years of experience in the air conditioning, heating and refrigeration distribution industry.

Markets The Company's network serves 30 states from 284 locations. The Company's
- -------
primary markets include (in order of the number of locations in the state): Florida, Texas, Georgia, California, South Carolina, North Carolina, Alabama, Tennessee, Arizona, Missouri and Massachusetts. The Company also serves Nevada, Kansas, Arkansas, Nebraska, Mississippi, Virginia, Oklahoma, Louisiana, Kentucky, North Dakota, South Dakota, Iowa, New Hampshire, Connecticut, Maine, Maryland, Vermont, Rhode Island and New York. The Company also distributes products on an export basis to portions of Latin America and the Caribbean Basin.

Customers and Customer Service The Company sells to contractors and dealers who
- ------------------------------
service the replacement and new construction 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 2001 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. The Company also provides increased customer convenience through e-commerce, which allows customers to access the Company's systems on-line 24 hours a day, 7 days a week to search for desired products, verify inventory availability, obtain pricing, place orders, check order status, schedule pickup or delivery times and make payments. 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.

Key Equipment Suppliers The Company maintains significant relationships with
- -----------------------
Carrier, Rheem, Nordyne, York and American Standard, 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 two-thirds of industry sales in the United States and expects this percentage to increase as units installed in the past 20 years wear out and get replaced or updated to more energy-efficient models.

The Company made approximately 45% of its total 2001 purchases from five key equipment suppliers. A significant interruption in the delivery of these products could 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 complementary 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.

Staffing Segment

The Company also owns Dunhill Staffing Systems, Inc. ("Dunhill"), which was founded in 1952 and is one of the nation's best-known staffing service networks. Through franchised, licensed and company-owned offices in 35 states and Canada, Dunhill provides temporary staffing and permanent placement services to businesses (including the Company's operating subsidiaries), professional and service organizations, government agencies, health care providers and other employers. Dunhill's operations primarily consist of 20 company-owned and 10 licensed temporary staffing offices, as well as 88 franchised permanent placement offices and 4 franchised temporary staffing offices. Dunhill's franchisees operate their businesses autonomously within the framework of Dunhill's policies and standards and recruit, employ and pay their own employees, including temporary employees. Dunhill's permanent placement division recruits primarily middle management, sales, technical, administrative and support personnel for permanent employment in a wide variety of industries and positions. For additional information see Note 13 to the Consolidated Financial Statements.

Employees

The Company employed approximately 2,700 persons as of December 31, 2001, substantially all of which are non-union employees. The Company believes that its relations with its employees are good.

Order Backlog

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.

Government Regulations and Environmental Matters

The Company's operations are subject to federal, state and local laws and regulations relating to the generation, storage, handling, emission, transportation and discharge of materials into the environment. These include laws and regulations implementing the Clean Air Act, relating to minimum energy efficiency standards of HVAC systems and the production, servicing and disposal of certain ozone-depleting refrigerants used in such systems, including those established at the Montreal Protocol in 1992 concerning the phase-out of CFC-based refrigerants. The Company is also subject to regulations concerning the transport of hazardous materials, including regulations adopted pursuant to the Motor Carrier Safety Act of 1990. Management believes that the Company is in substantial compliance with all applicable federal, state and local provisions relating to the protection of the environment and transport of hazardous materials.

BUSINESS RISK FACTORS

Supplier Concentration The Company has distribution agreements with five 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 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. Purchases from these five suppliers comprised 45% of all purchases made in 2001. The Company's largest supplier accounted for 16% of all purchases made in 2001. Any significant interruption by the manufacturers or a termination of a distribution agreement could temporarily disrupt the operations of certain subsidiaries. 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. The Company believes that its sales of other complementary equipment products and continued emphasis to expand sales of parts and supplies are mitigating factors against such risks.

Competition All of the Company's businesses operate in highly competitive
- -----------
environments. The Company's Distribution segment competes with a number of distributors and also with several air conditioning and heating equipment manufacturers that 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.

Seasonality Sales of residential central air conditioners, heating equipment and
- -----------
parts and supplies distributed by the Company have historically been seasonal. Furthermore, the Company's results of operations can be impacted favorably or unfavorably based on the severity or mildness of weather patterns during summer or winter selling seasons. 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 except for dependence on housing completions and related weather and economic conditions.

GENERAL RISK FACTORS

Risks Related to Insurance Coverage. The Company carries general liability,
- ----------------------------------
comprehensive property damage, workers' compensation and other insurance coverages that management considers adequate for the protection of its assets and operations. There can be no assurance, however, that the coverage limits of such policies will be adequate to cover losses and expenses for lawsuits brought or which may be brought against the Company. A successful claim against the Company in excess of insurance coverages could have a material adverse effect on the Company. The Company retains certain self-insurance risks for health benefits and casualty insurance programs. The Company has limited its exposure by maintaining excess and aggregate liability coverages.

Control by Existing Shareholder. As of December 31, 2001, Albert H. Nahmad, the
- ------------------------------
Company's Chairman of the Board and President, and a limited partnership controlled by him, collectively had beneficial ownership of approximately 58% of

the combined voting power of the outstanding Common Stock and Class B Common Stock. Based on Mr. Nahmad's stock ownership, and the stock ownership of the limited partnership controlled by him, Mr. Nahmad has the voting power to elect all but three members of the Company's nine-person Board of Directors.

ITEM 2. PROPERTIES

The Company's Distribution segment operates 284 locations in the United States having approximately 5.4 million square feet of space, of which approximately 4.9 million square feet is leased. The Company also leases approximately .3 million square feet of space for additional storage and offices. The Company's Staffing segment operates from 20 locations, all of which are leased. The Company believes that its facilities are well maintained and adequate to meet its needs.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are involved in litigation incidental to the operation of the Company's business. The Company vigorously defends all matters in which the Company or its subsidiaries are named defendants and, for insurable losses, maintains significant levels of insurance to protect against adverse judgments, claims or assessments that may affect the Company. In the opinion of the Company, although the adequacy of existing insurance coverage or the outcome of any legal proceedings cannot be predicted with certainty, the ultimate liability associated with any claims or litigation in which the Company or its subsidiaries are involved will not materially affect the Company's financial condition 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, 2001.

PART II

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

Page 36 of the Company's 2001 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, 2001, 2000 and 1999 and is incorporated herein by reference.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Page 8 of the Company's 2001 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 15 of the Company's 2001 Annual Report contain "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Page 14 of the Company's 2001 Annual Report contains "Qualitative and Quantitative Disclosures about Market Risk" and is incorporated herein by reference.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pages 16 through 33 of the Company's 2001 Annual Report contain the 2001 and 2000 Consolidated Balance Sheets and other consolidated financial statements for the years ended December 31, 2001, 2000 and 1999, together with the report thereon of Arthur Andersen LLP dated February 11, 2002, and 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)	Consolidated Financial Statements, Consolidated Financial Statement Schedule and Exhibits	
(1)	Consolidated Financial Statements (incorporated by reference from the 2001 Annual Report of Watsco, Inc.):	
	Consolidated Statements of Income for the years ended December 31, 2001, 2000 and 1999	16
	Consolidated Balance Sheets as of December 31, 2001 and 2000	17
	Consolidated Statements of Shareholders' Equity and Comprehensive Income for the years ended December 31, 2001, 2000 and 1999	18
	Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999	19
	Notes to Consolidated Financial Statements	20-33
	Report of Independent Certified Public Accountants	34
	Selected Quarterly Financial Data (Unaudited)	35

		Page No. in Form 10-K
(2)	Consolidated Financial Statement Schedule for the three years ended December 31, 2001, 2000 and 1999	
	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 Consolidated Financial Statements or notes thereto.

(3) Exhibits: The following list of exhibits 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, 2001 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 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).

10.2 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).

10.3 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).

10.4 Watsco, Inc. Amended and Restated 1991 Stock Option Plan (filed as Exhibit 4.23 to the Company's Registration Statement on Form S-8 (333-82011) and incorporated herein by reference).

10.5 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).

10.6 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).

10.7 Watsco, Inc. 1996 Qualified Employee Stock Purchase Plan (filed as Exhibit 4.3 to the Company's Registration Statement on Form S-8 (333-80341) and incorporated herein by reference).

10.8 Watsco, Inc. 2001 Incentive Compensation Plan (filed as Appendix B to the Company's Definitive Proxy Statement for the year ended December 31, 2000 and incorporated herein by reference.)

10.9 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, N.A. (filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 and incorporated herein by reference).

10.10 Amendment Agreement No. 2 to Amended and Restated Revolving Credit and Reimbursement Agreement dated June 30, 1999 by and among Watsco, Inc., the Lenders and NationsBank, N.A., as Agent (filed as Exhibit 10.10 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 and incorporated herein by reference).

10.11 Amendment Agreement No. 3 to Amended and Restated Revolving Credit and Reimbursement Agreement dated December 30, 1999 by and among Watsco, Inc., the Lenders and NationsBank, N.A., as Agent. (filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).

10.12 Amendment Agreement No. 4 to Amended and Restated Revolving Credit and Reimbursement Agreement dated March 14, 2000 by and among Watsco, Inc., the Lenders and NationsBank, N.A., as Agent. (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).

10.13 Watsco, Inc. $125,000,000 Private Shelf Agreement as of January 31, 2000 by and among, Watsco, Inc. and the Prudential Insurance Company of America. (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1999 and incorporated herein by reference).

10.14 First Amendment dated January 1, 2001 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad. (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference).

10.15 Second Amendment dated January 1, 2002 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad. #

13. 2001 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 2001 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. #

99. Letter to the Securities and Exchange Commission dated March 28, 2002 regarding Arthur Andersen LLP quality control. #

Note to exhibits:

Submitted electronically herewith.

(b) Reports on Form 8-K:

A report on Form 8-K dated October 30, 2001, disclosed in Item 5, Other Events and Regulation FD Disclosure, that the Company issued a press release regarding the Company's plan to integrate the operations of its manufactured housing subsidiaries and close certain under performing locations in both its manufactured housing operations and Staffing segment.

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 28, 2002	By: /s/ Albert H. Nahmad Albert H. Nahmad, President
March 28, 2002	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 28, 2002
/s/ Barry S. Logan Barry S. Logan	Vice President and Secretary (principal accounting officer)	March 28, 2002
/s/ Cesar L. Alvarez Cesar L. Alvarez	Director	March 28, 2002
/s/ David B. Fleeman David B. Fleeman	Director	March 28, 2002
/s/ George Fugelsang George Fugelsang	Director	March 28, 2002
/s/ Victor Lopez Victor Lopez	Director	March 28, 2002
/s/ Paul F. Manley Paul F. Manley	Director	March 28, 2002
/s/ Bob L. Moss Bob L. Moss	Director	March 28, 2002
/s/ Roberto Motta Roberto Motta	Director	March 28, 2002

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULE

To Watsco, Inc.:

We have audited in accordance with auditing standards generally accepted in the United States, 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, 2002 (except with respect to the matter discussed in Note 14, as to which the date is March 22, 2002). 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, 2002.

WATSCO, INC.
SCHEDULE II-VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2001, 2000 and 1999
(In thousands)

Allowance for doubtful accounts:

BALANCE, December 31, 1998	$ 6,716
Allowances from acquisitions	90
Additions charged to costs and expenses	3,389
Write-offs, net	(4,631)
BALANCE, December 31, 1999	5,564
Additions charged to costs and expenses	5,386
Write-offs, net	(3,980)
BALANCE, December 31, 2000	6,970
Additions charged to costs and expenses	6,319
Write-offs, net	(6,968)
BALANCE, December 31, 2001	$ 6,321

Restructuring liability and valuation reserves:

BALANCE, December 31, 1999	$ --
Additions charged to costs and expenses	8,481
Write-down of assets to net realizable value	(1,826)
Cash payments	(1,500)
BALANCE, December 31, 2000(1)	5,155
Additions charged to costs and expenses	3,424
Change in estimate	(227)
Write-down of assets to net realizable value	(4,891)
Cash payments	(1,748)
BALANCE, December 31, 2001(2)	$ 1,713

(1) At December 31, 2000, valuation reserves of $3,484 and $30, respectively, are netted against related asset balances -inventories and accounts receivable, net and a $1,641 restructuring liability is included in accrued liabilities in the consolidated balance sheet.

(2) At December 31, 2001, a restructuring liability of $1,385 is included in accrued liabilities and an inventory valuation reserve of $328 is netted against inventories in the consolidated balance sheet.

Exhibit 10.15

SECOND AMENDMENT
TO
EMPLOYMENT AGREEMENT

This Second Amendment to Employment Agreement is made and entered into effective as of January 1, 2002, by and between WATSCO, INC., a Florida corporation (hereinafter called the "Company"), and ALBERT H. NAHMAD (hereinafter called the "Employee").

RECITALS

WHEREAS, the Company and the Employee entered into an Employment Agreement effective as of January 31, 1996 (the "Employment Agreement") pursuant to which the Employee renders certain services to the Company; and

WHEREAS, the Compensation Committee of the Company's Board of Directors amended the Employment Agreement effective as of January 1, 2001; and

WHEREAS, the Company and the Employee now desire to amend Exhibit A-1 to the Employment Agreement to specify the performance based compensation payable by the Company to the Employee for the calendar year 2002.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth in this Second Amendment, and other good and valuable consideration, the parties to this Second Amendment agree as follows:

1. All capitalized terms in this Second Amendment shall have the same meaning as in the Employment Agreement, unless otherwise specified.

2. The Employment Agreement is hereby amended by replacing "Exhibit A-1 -- 2001 Performance Goals and Performance Based Compensation" with the attached "Exhibit A-1 -- 2002 Performance Goals and Performance Based Compensation" thereto.

3. All other terms and conditions of the Employment Agreement shall remain the same.

IN WITNESS WHEREOF, the parties have caused this Second Amendment to be duly executed effective as of the day and year first above written.

COMPANY:

WATSCO, INC.

By: /x/ Barry S. Logan

Barry S. Logan, Vice President

EMPLOYEE:

/x/ Albert H. Nahmad

ALBERT H. NAHMAD

EXHIBIT A-1

2002 Performance Goals and Performance Based Compensation

IV. Formula

A.	Earnings Per Share	Performance Based Compensation Formula
	For each $.01 increase......................	$65,250
B.	Increase in Common Stock Price	
	(i) If the price of a share of Common Stock on 12/31/02 does not exceed $14.20...........	$ 0
	(ii) If the price of a share of Common Stock on 12/31/02 exceeds $14.20 but does not equal or exceed $17.00, for each $0.01 increase in per share price of a share of Common Stock above $14.20................................	$ 1,200
	(iii) If the price of a share of Common Stock on 12/31/02 equals or exceeds $17.00, for each $0.01 increase in per share price of a share of Common Stock above $14.20.................	$ 1,600

V. Method of Payment

A. Cash. The Performance Based Compensation determined for 2002 under the formula set forth in Section I above shall be paid in cash if and to the extent such Compensation does not exceed $1,250,000.

B. Restricted Stock. If the Performance Based Compensation determined for 2002 under the formula set forth in Section I above exceeds $1,250,000 (such excess amount being referred to as the "Additional Amount"), the Executive shall be granted a number of shares of restricted Class B Common Stock of the Company (the "Shares") equal to the amount determined by dividing (i) two times the Additional Amount, by (ii) the closing price for the Class B Common Stock of the Company on the American Stock Exchange as of the close of trading on December 31, 2002. The value of any fractional shares shall be paid in cash. The restrictions on the Shares shall lapse on the first to occur of (i) October 15, 2015, (ii) termination of the Executive's employment with the Company by reason of Executive's disability or death, (iii) the Executive's termination of employment with the Company for Good Reason; (iv) the Company's termination of Executive's employment without Cause, or (v) the occurrence of a Change in Control of the Company ("Good Reason", "Cause", and "Change in Control" to be defined in a manner consistent with the most recent grant of Restricted Stock by the Company to the Executive).

VI. 2000 Incentive Compensation Plan

The performance based award and method of payment specified above (the "Award") were made by the Compensation Committee in accordance with Section 8 of the Company's 2001 Incentive Compensation Plan (the "Incentive Plan") and are subject to the limitations contained in Section 5 of the Incentive Plan. The Award is intended to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code.

Dated: Effective as of January 1, 2002

/x/ Paul Manley
Paul Manley, Chairman
Compensation Committee

Acknowledged and Accepted:

/x/ Albert H. Nahmad
Albert H. Nahmad

Exhibit 13

WATSCO, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

Years Ended December 31, (In thousands, except per share data)	2001(1)	2000(2)	1999	1998	1997
OPERATIONS					
Revenue	$1,238,646	$1,310,166	$1,249,550	$1,062,265	$ 679,931
Gross profit	299,040	306,780	295,116	241,924	152,788
Operating income	48,324	45,815	59,439	54,066	34,793
Income from continuing operations(3)	24,441	19,114	29,481	26,972	19,368
SHARE DATA (4)					
Diluted earnings per share from continuing operations	$ 0.90	$ 0.69	$ 0.99	$ 0.94	$ 0.72
Cash dividends declared per share:					
Common Stock	$ 0.10	$ 0.10	$ 0.10	$ 0.10	$ 0.09
Class B Common Stock	0.10	0.10	0.10	0.10	0.09
Weighted average shares outstanding for diluted earnings per share	27,251	27,793	29,741	28,690	26,780
Common stock outstanding	26,745	26,497	27,907	28,032	26,144
BALANCE SHEET INFORMATION					
Total assets	$ 520,820	$ 563,470	$ 588,180	$ 535,323	$ 429,070
Long-term obligations	101,900	140,878	159,415	172,301	137,276
Shareholders' equity	322,420	304,164	301,716	274,568	225,598

(1) During 2001, the Company recorded restructuring and other non-cash charges of $5,795 ($3,691 or $0.14 per share on an after-tax basis), as more fully described in Note 9 to the consolidated financial statements.

(2) During 2000, the Company recorded restructuring and other non-cash charges of $13,169 ($8,270 or $0.30 per share on an after-tax basis), as more fully described in Note 9 to the consolidated financial statements.

(3) Excludes the results of the Company's manufacturing operation, which was accounted for as a discontinued operation in 1997 and 1998.

(4) Share data includes the effect of a three-for-two stock split effected on August 14, 1998.

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

Results of Operations

Watsco, Inc. and its subsidiaries (collectively, the "Company" or "Watsco") is the largest independent distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC") in the United States. The Company has two business segments - the HVAC distribution ("Distribution") segment, which accounted for 96% of 2001 revenue and presently operates from 284 locations in 30 states and a national temporary staffing and permanent placement services ("Staffing") segment, which accounted for 4% of 2001 revenue. Included in the Distribution segment are operations that sell products specifically designed for the manufactured housing market.

The following table sets forth, as a percentage of revenue, the Company's consolidated statement of income data for the years ended December 31, 2001, 2000 and 1999.

	2001	2000	1999
Revenue	100.0%	100.0%	100.0%
Cost of sales	75.9	76.3	76.4
Cost of sales - restructuring	--	.3	--
Gross profit	24.1	23.4	23.6
Selling, general and administrative expenses	20.0	19.6	18.8
Restructuring costs	.2	.3	--
Operating income	3.9	3.5	4.8
Interest expense	(.8)	(1.0)	(1.0)
Investment write-down	--	(.1)	--
Income taxes	(1.1)	(.9)	(1.4)
Net income	2.0%	1.5%	2.4%

The following table sets forth revenue by business segment for the years ended December 31, 2001, 2000 and 1999.

	2001		2000		1999	
Distribution	$1,194,587	96%	$1,243,208	95%	$1,185,366	95%
Staffing	44,059	4%	66,958	5%	64,184	5%
Total revenue	$1,238,646	100%	$1,310,166	100%	1,249,550	100%

The following narratives include the results of operations acquired during 2000 and 1999. 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. Data presented in the following narratives referring to "same-store basis" exclude the effects of operations acquired or locations opened and closed during the prior twelve months.

Consolidated Comparison of Year Ended December 31, 2001 with Year Ended December 31, 2000

Consolidated revenue in 2001 decreased $71.5 million, or 5%, over 2000. Revenue results were primarily impacted by the closure of locations, the discontinuance of certain under performing product lines in the Distribution segment and lower sales demand in the Staffing segment.

Distribution segment revenue in 2001 decreased $48.6 million, or 4%, over 2000. On a same-store basis, revenue in the Distribution segment decreased $29.2 million, or 2%, over 2000, including a $13.2 million or 1% same-store sales decline in residential and light commercial HVAC products. The decrease in revenue is attributable to the closure of 42 locations, the discontinuance of certain under performing product lines during 2001 and 2000 and an 18% decline in sales in the manufactured housing operations. The manufactured housing operations, which represented 9% of the Distribution segment's revenue, continue to be affected by a tightened financing market for home dealers and consumers. Staffing segment revenue in 2001 decreased $22.9 million, or 34%, over 2000. This decrease is primarily attributable to lower sales demand due to the economic softness experienced in the United States in 2001 and the effect of 7 location closures during 2001. On a same-store basis, revenue in 2001 decreased $16.3 million, or 27%, over 2000.

Consolidated gross profit in 2001 decreased $7.7 million, or 3%, over 2000, primarily as a result of the aforementioned revenue decrease offset by gross profit margin improvement in the Distribution segment. Gross profit margin increased to 24.1% in 2001 from 23.4% in 2000, primarily as a result of improved pricing disciplines and improved vendor programs in the Distribution segment. Excluding restructuring charges, gross profit margin increased to 24.1% in 2001 from 23.7% in 2000. On a same-store basis and excluding restructuring charges incurred in 2001 and 2000, the Company's Distribution segment gross profit decreased $.5 million, or .2%.

Consolidated selling, general and administrative expenses in 2001 decreased $8.9 million, or 3.5%, over 2000, primarily due to the cost savings attributable to the closure of 42 locations in the Distribution segment and 7 locations in the Staffing segment. Selling, general and administrative expenses, excluding restructuring charges of $2.9 million and $4.2 million, in 2001 and 2000, respectively, as a percent of revenue increased to 20.0% in 2001 from 19.6% in 2000. Such increase was primarily due to operating inefficiencies resulting from lower than expected sales volume in the Staffing segment and in the Distribution segment's manufactured housing operations. On a same-store basis and excluding restructuring charges incurred in 2001 and 2000, the Company's Distribution segment selling, general and administrative expenses decreased $3.6 million or 2% and as a percent of revenue selling, general and administrative expenses increased to 18.9% in 2001 from 18.7% in 2000.

Interest expense, net in 2001 decreased $3.3 million, or 25%, from 2000 primarily due to 20% lower average daily borrowings during the year and lower interest rates.

The effective tax rate declined to 36.3% in 2001 from 37.2% in 2000 following the implementation of tax planning strategies.

Consolidated Comparison of Year Ended December 31, 2000 with Year Ended December 31, 1999

Consolidated revenue in 2000 increased $60.6 million, or 5%, over 1999, primarily due to the revenue increase in the Distribution segment.

Distribution segment revenue in 2000 increased $57.8 million, or 5% over 1999. On a same-store basis, revenue in the Distribution segment increased $42.4 million, or 4%, over 1999, including a $64.1 million or 6%, same-store sales increase in residential and light commercial HVAC products. The Company's sales in the manufactured housing operations which represented 9% of the Distribution segment's revenue, declined primarily as a result of a tightened financing market for home dealers and consumers. Staffing segment revenue in 2000 increased $2.8 million, or 4%, over 1999. On a same-store basis, revenue in 2000 increased $1.8 million, or 3%.

Consolidated gross profit in 2000 increased $11.7 million, or 4%, over 1999, primarily as a result of the aforementioned revenue increase. Gross profit margin decreased to 23.4% in 2000 from 23.6% in 1999, primarily as a result of restructuring charges relating to discontinued product lines and to the elimination of other unproductive SKUs. Excluding restructuring charges, gross profit margin increased to 23.7% in 2000 from 23.6% in 1999. The increase in gross profit margin is primarily attributable to enhanced focus on margins in certain markets and contribution from expanded vendor programs in the Distribution segment. On a same-store basis and excluding restructuring charges incurred in 2000, the Company's Distribution segment gross profit increased $12.2 million, or 5%.

Consolidated selling, general and administrative expenses in 2000 increased $21.1 million, or 9%, over 1999, primarily due to the full-year impact of selling, general and administrative expenses of companies acquired in late 1999 and increased sales activity. Selling, general and administrative expenses, excluding restructuring charges of $4.2 million in 2000, as a percent of revenue increased to 19.6% in 2000 from 18.8% in 1999. Such increase was primarily due to the inability to leverage the fixed cost structures against lower than expected sales volume, operating inefficiencies caused by lower business volume in the Distribution segment's manufactured housing operations and additional costs incurred to support expanded product lines. On a same-store basis and excluding restructuring charges incurred in 2000, the Company's Distribution segment selling, general and administrative expenses increased $14.0 million, or 7%, and as a percent of revenue, selling, general and administrative expenses increased to 18.8% in 2000 from 18.3% in 1999.

A write-down of $2.2 million was recorded in 2000 for an impairment of an investment in marketable securities of one of the Company's primary competitors.

Interest expense, net in 2000 increased $.6 million, or 4%, from 1999 primarily due to 8% lower average daily borrowings during the year, offset by an increase in the effective interest rate from 6.6% to 7.2%.

The effective tax rate was 37.2% and 37.0% in 2000 and 1999, respectively.

Restructuring and Non-Cash Charges

During 2001 and 2000, the Company implemented several initiatives to improve operating efficiency and enhance profitability. As a result of these initiatives, the Company closed certain under performing locations and reduced market overlap, disposed of inventory related to discontinued product lines, eliminated other nonproductive SKUs, integrated operations of certain subsidiaries and exited certain business relationships. Accordingly, the Company recorded significant restructuring and non-cash charges as follows.

2001 Restructuring Plan

In September 2001, the Company's Board of Directors ("Board") approved plans to integrate the operations of the Company's manufactured housing subsidiaries, close locations in the Distribution and Staffing segments and exit certain licensee relationships in the Staffing segment (the "2001 Restructuring Plan"). In connection with the 2001 Restructuring Plan, 6 distribution locations will close during 2002 and 7 staffing locations closed in 2001.

The Company recorded restructuring charges of $3.4 million ($2.2 million after-tax and $0.08 per share on a diluted basis) during the third quarter of 2001 in accordance with Emerging Issues Task Force Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and SEC Staff Accounting Bulletin ("SAB") No. 100, "Restructuring & Impairment Charges." The pre-tax charges are comprised of $1.4 million related to non-cancelable lease obligations, $1.3 million related to the write-down of assets impaired as a result of the restructuring activities, $.4 million for facility exit costs and $.3 million for an inventory valuation reserve for discontinued product lines. The portion of the restructuring charge that relates to the valuation of inventory to be disposed of has been classified in cost of sales in the consolidated statement of income for the year ended December 31, 2001. During the year ended December 31, 2001, the Company reversed restructuring charges of $.2 million, primarily due to lease buy-outs settled at more favorable terms than expected. The 2001 Restructuring Plan initiatives are expected to be completed in 2002.

Also during the third quarter of 2001, the Company recorded non-cash charges of $1.1 million for the write-off of an asset related to a supply arrangement in the Distribution segment, $.8 million for additional accounts receivable valuation reserves in the Staffing segment and $.7 million related to a terminated licensee's workers compensation program in the Staffing segment. Non-cash charges are included in selling, general and administrative expenses, except for the charge related to the worker's compensation program, which is included in cost of sales in the consolidated statement of income for the year ended December 31, 2001.

On an after-tax basis restructuring and other non-cash charges were $3.7 million for the year ended December 31, 2001 ($0.14 per share on a diluted basis).

2000 Restructuring Plan

In December 2000, the Company's Board approved plans adopted by certain operating subsidiaries to eliminate under performing locations, reduce market overlap, dispose of inventory related to discontinued product lines and eliminate other nonproductive SKUs (the "2000 Restructuring Plan"). In connection with the 2000 Restructuring Plan, 25 distribution locations closed during 2000 and 7 distribution locations closed during 2001.

The Company recorded restructuring charges of $8.5 million ($5.3 million after-tax) during the fourth quarter of 2000 ($0.19 per share on a diluted basis). A portion of this restructuring charge ($4.3 million on a pre-tax basis) relates to the valuation of inventory to be disposed of and has been classified in cost of sales in the Company's consolidated statement of income for the year ended December 31, 2000.

Also during the fourth quarter of 2000, the Company recorded non-cash charges of $.8 million related to additional inventory reserves in cost of sales, $1.7 million related to accounts receivable valuation reserves in the manufactured housing operation in selling, general and administrative expenses and $2.2 million related to the write-down of an impaired investment in one of the Company's primary competitors in other expense. See Note 1 in the Consolidated Financial Statements for additional information regarding the Company's policy on accounting for available-for-sale securities.

On an after-tax basis, restructuring and other non-cash charges were $8.3 million for the year ended December 31, 2000 ($0.30 per share on a diluted basis). The restructuring activities relating to the 2000 Restructuring Plan have been completed and accordingly, no further restructuring reserves remain as of December 31, 2001.

The restructuring charges were determined based on formal plans approved by the Company's Board using the best information available to it at the time. The amounts the Company may ultimately incur may change, as the balance of the Company's initiatives to streamline operations are executed. The Company expects that the restructuring activities will result in a simplified operating structure that should enhance future profitability.

Critical Accounting Policies

The accounting policies below are critical to the Company's business operations and the understanding of results of operations. The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the reporting period. The Company bases its estimates on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition

The Company's revenue recognition policy is significant because revenue is the key component of results of operations. The Company recognizes revenue in accordance with SEC SAB No. 101, "Revenue Recognition in Financial Statements", as amended by SAB 101A and 101B. Revenue for the Company primarily consists of sales of air conditioning, heating and refrigeration equipment and related parts and supplies and service fee revenue from the Company's Staffing segment. SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the amounts recognized are fixed and determinable, and (4) collectibility is reasonably assured. The Company records revenue after it receives a purchase commitment with a fixed determinable price from the customer and shipment of products or delivery of services has occurred.

Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. The Company establishes and monitors the allowance for doubtful accounts based on the credit risk of specific customers, customer concentrations, historical trends and other information. Although the Company believes its allowance is sufficient, if the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. 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. Substantially all customer returns are under warranty by the Company's manufacturers. Accordingly, the Company's risk of loss for customer returns is not material.

Inventory Valuation

Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are stated at the lower of cost (first-in, first-out method) or market. Provision is made as necessary to reduce excess or obsolete inventories to their estimated net realizable value. The process for evaluating the value of excess and obsolete inventory often requires the Company to make subjective judgments and estimates concerning future sales levels, quantities and prices at which such inventory will be able to be sold in the normal course of business. Accelerating the disposal process or incorrect estimates of futures sales potential may cause the actual results to differ from the estimates at the time such inventory is disposed or sold.

Income Taxes

The Company provides for federal and state income taxes currently payable, as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities reflect the temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. The Company and its eligible subsidiaries file a consolidated United States federal income tax return. As the Company generally does not file its income tax returns until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual income tax returns are filed for that calendar year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that the Company and its subsidiaries are required to file, the potential utilization of operating loss carry-forwards for both federal and state income tax purposes and valuation allowances required, if any, for tax assets that may not be realizable in the future.

Restructuring

The Company records restructuring liabilities at the time the Board approves and commits to a restructuring plan that identifies all significant actions to be taken and the expected completion date of the plan is within a reasonable period of time. The restructuring liability includes those restructuring costs that can be reasonably estimated, are not associated with or do not benefit activities that will be continued and are not associated with or are not incurred to generate revenue after the plan's commitment date. Restructuring costs are incurred as a direct result of the plan and are incremental to other costs incurred by the Company in the conduct of its activities prior to the commitment date or existed prior to the commitment date under a contractual obligation that will either continue after the exit plan is completed with no economic benefit to the Company or reflect a penalty to cancel a contractual obligation. See Note 9 to the Consolidated Financial Statements for further information regarding the Company's restructuring programs.

Liquidity and Capital Resources

Management assesses the Company's liquidity in terms of its ability to generate cash to fund its operating and investing activities and takes into consideration the seasonal demand of the Company's products, which peak in the months of May through August. Significant factors affecting liquidity include the adequacy of available bank lines of credit and the ability to attract long-term capital with satisfactory terms, cash flows generated from operating activities, capital expenditures, the timing and extent of common stock repurchases and dividend policy.

The Company maintains a bank-syndicated revolving credit agreement that provides for borrowings of up to $315.0 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 aggregated $70.0 million and $138.0 million at December 31, 2001 and 2000, respectively, and bear interest at primarily London Interbank Offered Rate ("LIBOR") based rates plus a spread that is dependent upon the Company's financial performance (LIBOR plus .5% and .6% as of December 31, 2001 and 2000, respectively). The Company must pay a variable commitment fee on the unused portion of the commitment. The revolving credit agreement contains customary affirmative and negative covenants including certain 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. The Company was in compliance with all covenants at December 31, 2001.

On February 11, 2002, the Company signed a commitment letter with SunTrust Robinson Humphrey Capital Markets, ("SunTrust") to act as agent for a $225.0 million bank-syndicated revolving credit agreement to refinance the existing facility through 2005. The Company chose to reduce the total funding provided under the proposed credit agreement compared with the current revolving credit agreement because improved cash flows and a reduction in total debt outstanding have made alternative sources of financing more readily available to the Company. Borrowings under the proposed revolving credit agreement would bear interest at primarily LIBOR based rates plus a spread that is dependent upon the Company's financial performance. The Company will pay a variable commitment fee on the unused portion of the commitment. The proposed revolving credit agreement contains customary affirmative and negative covenants. On March 22, 2002, SunTrust received final commitments from lenders totaling $225.0 million subject to final execution of loan documents. Although, no assurances can be made, the Company anticipates closing the new facility during the second quarter of 2002.

On January 31, 2000, the Company entered into a $125.0 million private placement shelf facility. The uncommitted loan facility provides the Company a source of long-term, fixed-rate financing as a complement to the variable rate borrowings available under its existing revolving credit facility. On February 7, 2001, the Company issued $30.0 million Senior Series A Notes ("Notes") bearing

7.07% interest under its private placement shelf facility. The Notes have an average life of 5 years with repayment in equal installments of $10.0 million beginning on April 9, 2005 until the final maturity on April 9, 2007. Interest is to be paid on a quarterly basis beginning on April 9, 2001. The Company used the net proceeds from the issuance of the Notes for the repayment of a portion of its outstanding indebtedness under its revolving credit facility.

At December 31, 2001, the Company had various interest rate swap agreements 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 Notes 3 and 11 to Consolidated Financial Statements for further information and MD&A section "Qualitative and Quantitative Disclosures about Market Risk."

Working capital decreased to $269.7 million at December 31, 2001 from $278.4 million at December 31, 2000. This decrease was primarily due to reductions in accounts receivable and inventory, offset by a reduction in accounts payable. The accounts receivable decrease in 2001 was directly correlated to the revenue decrease in 2001 and the impact of improved collection efforts in the Distribution segment. Accordingly, accounts receivable days sales improved to 44 in 2001 from 45 in 2000. Inventory at December 31, 2001 decreased compared to December 31, 2000 primarily due to lower inventory levels required from lower sales levels in 2001 and the affect of the disposal of certain discontinued and under performing product lines in connection with the Company's 2001 and 2000 Restructuring Plans. Inventory turns improved to 4.8 in 2001 from 4.7 in 2000.

Net cash provided by operating activities was $52.6 million in 2001 compared to $49.1 million in 2000, an increase of $3.5 million, primarily due to the aforementioned reductions in working capital. Net cash provided by operating activities was $49.1 million in 2000 compared to $41.9 million in 1999, an increase of $7.2 million, also due to reductions in working capital.

Net cash used in investing activities decreased to $3.3 million in 2001 from $10.1 million in 2000 primarily as a result of decreases in capital expenditures in 2001. Net cash used in investing activities decreased to $10.1 million in 2000 from $11.9 million in 1999, primarily as a result of fewer acquisitions during 2000.

Net cash used in financing activities of $44.9 million in 2001 resulted primarily from net repayments under the revolving credit agreement and purchases of the Company's common stock, offset by proceeds from the issuance of Notes under the private placement facility. Net cash used in financing activities of $41.7 million in 2000 resulted primarily from net repayments under the revolving credit agreement and other debt and purchases of the Company's common stock. Net cash used by financing activities of $29.8 million in 1999 resulted primarily from net repayments under the revolving credit agreement and purchases of the Company's common stock.

The Company's Board authorized the repurchase, at management's discretion, of up to 6.0 million shares of the Company's stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders' equity. The Company purchased .3 million shares at a cost of $3.2 million in 2001, 1.8 million shares at a cost of $17.6 million in 2000 and 1.3 million shares at a cost of $14.3 million in 1999. In aggregate, the Company has repurchased 3.4 million shares of Common Stock and Class B Common Stock at a cost of $35.1 million.

Cash dividends of 10 cents per share were paid in each of 2001 and 2000. In February 2002, the Company's Board approved an increase in the quarterly cash dividend to 3 cents per share. Future dividends will be at the sole discretion of the Board and will depend upon such factors as the Company's profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by the Board.

The Company has adequate availability of capital from operations, its exiting and proposed revolving credit agreement and private placement shelf facility 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.

The following summarizes the Company's contractual obligations at December 31, 2001:

	Payments due by Period (in millions)			
	Within 1 Year	2-3 Years	4-5 Years	After 5 Years
Non-cancelable operating lease obligations	$26,920	$37,883	$18,598	$11,317
Long-term debt	--	--	20,000	10,000
Bank and other debt	429	1,566	182	152
Total	$27,349	$39,449	$38,780	$21,469

The Company also had standby letters of credit outstanding amounting to $3.4 million at December 31, 2001.

General Considerations

Sales of residential central air conditioners, heating equipment and parts and supplies distributed by the Company have historically been seasonal. Furthermore, the Company's results of operations can be impacted favorably or unfavorably based on the severity or mildness of weather patterns during summer or winter selling seasons. 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 except for dependence on housing completions and related weather and economic conditions.

Qualitative and Quantitative Disclosures about Market Risk

The Company's primary market risk exposure consists of interest rate risk. The Company's objective in managing the exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company uses interest rate swaps to manage net exposure to interest rate changes to its borrowings. These swaps are entered into with a group of financial institutions with investment grade credit ratings, thereby minimizing the risk of credit loss. All items described are non-trading. See Notes 1 and 11 to Consolidated Financial Statements for further information.

The Company enters into interest rate swap agreements to reduce its exposure to market risks from changing interest rates. 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. The Company does not hold or issue such financial instruments for trading purposes. Derivatives used for hedging purposes must be designated as, and effective as, a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

At December 31, 2001 and 2000, the Company's interest rate swap portfolio consisted of several swaps aggregating a notional value of $60.0 million and maturity dates ranging from 2002 to 2007. The swap agreements exchange the variable rate of LIBOR plus the spread on its revolving credit agreements to fixed interest rate payments ranging from 6.25% to 6.49% in 2001 and 2000.

Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in the income statement when the hedged items affect earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

The adoption of SFAS No. 133 on January 1, 2001 resulted in a cumulative pre-tax reduction to OCI of $1.0 million ($.6 million after-tax). The Company also recorded a loss of $1.5 million, net of income tax benefit of $.9 million in OCI relating to the change in value of the cash flow hedges for the year ended December 31, 2001. The fair market value of the derivative financial instruments at December 31, 2001 was $3.4 million and is recorded in other liabilities in the Company's consolidated balance sheet at December 31, 2001.

During the year ended December 31, 2001, the Company reclassified $1.2 million from accumulated other comprehensive income to current period earnings (recorded as interest expense, net in the consolidated statement of income). The net deferred loss recorded in accumulated other comprehensive income will be reclassified to earnings on a quarterly basis as interest payments occur. As of December 31, 2001, approximately $2.1 million in deferred losses on derivative instruments accumulated in other comprehensive income is expected to be reclassified to earnings during the next twelve months using a current three month LIBOR-based average receive rate (2.60% at December 31, 2001).

The earnings and cash flows to be paid under the Company's existing and proposed revolving credit agreements are sensitive to changes in LIBOR. The Company performed a sensitivity analysis to determine the variability on earnings and cash flows based on the Company's swap portfolio and variable rate debt and their respective maturity dates. The average interest rates on the variable rate debt and the average receive rate on the interest rate swaps were derived from implied forward three-month LIBOR curves. The variability on earnings and cash flows aggregated approximately $3.0 million. This information constitutes a "forward-looking statement" and actual results may differ significantly based on actual borrowings and interest rates.

New Accounting Standards

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interest method is effective for transactions initiated after June 30, 2001. The remaining provisions of SFAS No. 141 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. The Company's adoption of SFAS No. 141 did not have an impact on its consolidated financial statements.

In June 2001, the FASB also issued SFAS No. 142 "Goodwill and Intangible Assets." SFAS No. 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS No. 142 will apply to goodwill and intangible assets arising from transactions completed before and after the Statement's effective date. SFAS No. 142 is effective for fiscal 2002. Upon adoption, the Company will no longer record approximately $3.5 million of amortization expense related to its intangible assets. In lieu of amortizing goodwill, the Company is required to perform an initial impairment review of goodwill in 2002 and an annual impairment review thereafter. In accordance with SFAS No. 142, the Company expects to complete the initial review by June 30, 2002. There can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and subsequently allocated to expense using a systematic and rational method. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not believe that the adoption of SFAS No. 143 will have a significant impact on its consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion ("APB") No. 30, "Reporting the Results of Operations - Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 retains the provisions of APB No. 30 for presentation of discontinued operations in the income statement, but broadens the presentation to include a component of an entity. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not believe that the adoption of SFAS No. 144 will have a material impact on its consolidated financial statements.

Recent Development

On March 14, 2002, the Justice Department charged the Company's independent auditor, Arthur Andersen LLP ("Andersen"), with a single felony count of obstruction of justice for destruction of documents related to its audit of Enron Corp. In response to this indictment, the Securities and Exchange Commission ("Commission") publicly announced that it has requested and received assurances from Andersen that it will continue to audit financial statements in accordance with generally accepted auditing standards and applicable professional and firm auditing standards, including quality control standards. The Commission also stated that it has been advised by Andersen that if it becomes unable to provide these assurances, it would advise the Commission immediately. The Commission further stated that as long as Andersen continues to be in a position to provide these assurances, the Commission will continue to accept financial statements audited by Andersen in public filings. We obtained from Andersen certain representations concerning audit quality controls, including representations regarding the continuity of Andersen personnel working on our audit and the availability of national office consultation. Shareholders can call a hotline set up by the Commission, 1-800-SEC-0330, or e-mail the Commission at help@sec.gov, with any questions.

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 "Business Risk Factors".

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years Ended December 31, 2001	2000	1999
Revenue	$1,238,646	$1,310,166	$1,249,550
Cost of sales	939,278	999,117	954,434
Cost of sales - restructuring	328	4,269	--
Gross profit	299,040	306,780	295,116
Selling, general and administrative expenses	247,847	256,753	235,677
Restructuring costs	2,869	4,212	--
Operating income	48,324	45,815	59,439
Other expense:			
Interest expense, net	9,955	13,211	12,643
Investment write-down	--	2,169	--
Total other expense	9,955	15,380	12,643
Income before income taxes	38,369	30,435	46,796
Income taxes	13,928	11,321	17,315
Net income	$ 24,441	$ 19,114	$ 29,481
Earnings per share:			
Basic	$ 0.94	$ 0.72	$ 1.03
Diluted	$ 0.90	$ 0.69	$ 0.99

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

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)	December 31, 2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,132	$ 4,781
Accounts receivable, net	143,301	163,770
Inventories	185,943	205,805
Other current assets	18,823	18,179
Total current assets	357,199	392,535
Property and equipment, net	30,703	30,258
Intangible assets, net	124,737	128,656
Other assets	8,181	12,021
	$ 520,820	$ 563,470
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 429	$ 1,887
Accounts payable	58,127	86,108
Accrued liabilities	28,985	26,099
Total current liabilities	87,541	114,094
Long-term obligations:		
Borrowings under revolving credit agreement	70,000	138,000
Long-term notes	30,000	--
Bank and other debt	1,900	2,878
Total long-term obligations	101,900	140,878
Deferred income taxes and other liabilities	8,959	4,334
Commitments and contingencies (Notes 11 and 12)		
Shareholders' equity:		
Common Stock, $0.50 par value, 60,000,000 and 40,000,000 shares authorized and 26,780,912 and 26,435,195 shares issued in 2001 and 2000, respectively	13,391	13,217
Class B Common Stock, $0.50 par value, 10,000,000 and 4,000,000 shares authorized and 3,322,980 and 3,157,407 shares issued in 2001 and 2000, respectively	1,661	1,579
Paid-in capital	210,859	204,871
Unearned compensation related to outstanding restricted stock	(9,772)	(6,031)
Accumulated other comprehensive income (loss), net of tax	(2,062)	105
Retained earnings	143,487	122,348
Treasury stock, at cost, 3,359,313 and 3,095,513 shares of common stock in 2001 and 2000, respectively	(35,144)	(31,925)
Total shareholders' equity	322,420	304,164
	$ 520,820	$ 563,470

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

WATSCO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In thousands, except share data)	Common Stock and Class B Common Stock Shares	Common Stock and Class B Common Stock Amount	Paid-in Capital	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 1998	28,032,314	$14,016	$ 189,225	$(5,051)	$(2,962)	$ 79,340	--	$ 274,568
Net income						29,481		29,481
Changes in value of investments, net of income taxes					2,293			2,293
Comprehensive income								31,774
Contribution to 401(k) plan	79,202	40	804					844
Issuances from exercise of stock options and employee stock purchase plan	206,192	103	1,391					1,494
Tax benefit from exercise of stock options			508					508
Issuances for acquisitions	842,569	421	8,929					9,350
Issuances of restricted shares of common stock	93,000	47	1,249	(1,296)				--
Amortization of unearned compensation				349				349
Common stock dividends, $0.10 per share						(2,850)		(2,850)
Purchase of treasury stock	(1,346,200)						(14,321)	(14,321)
Balance at December 31, 1999	27,907,077	14,627	202,106	(5,998)	(669)	105,971	(14,321)	301,716
Net income						19,114		19,114
Changes in value of investments, net of income taxes					774			774
Comprehensive income								19,888
Contribution to 401(k) plan	85,906	43	947					990
Issuances from exercise of stock options and employee stock purchase plan	171,419	85	1,161					1,246
Tax benefit from exercise of stock options			276					276
Issuances of restricted shares of common stock	127,000	63	1,144	(1,207)				--
Forfeitures of restricted shares of common stock	(45,000)	(22)	(763)	785				--
Amortization of unearned compensation				389				389
Common stock dividends, $0.10 per share						(2,737)		(2,737)
Purchase of treasury stock	(1,749,313)						(17,604)	(17,604)
Balance at December 31, 2000	26,497,089	14,796	204,871	(6,031)	105	122,348	(31,925)	304,164
Net income						24,441		24,441
Cumulative effect of accounting change in derivatives, net of income taxes					(629)			(629)
Changes in value of investments and derivatives, net of income taxes					(1,538)			(1,538)
Comprehensive income								22,274
Contribution to 401(k) plan	63,368	32	868					900
Issuances from exercise of stock options and employee stock purchase plan	102,749	51	789					840
Tax benefit from exercise of stock options			167					167
Issuances of restricted shares of common stock	375,173	188	4,642	(4,830)				--
Forfeitures of restricted shares of common stock	(30,000)	(15)	(478)	493				--
Amortization of unearned compensation				596				596
Common stock dividends, $0.10 per share						(3,302)		(3,302)
Purchase of treasury stock	(263,800)						(3,219)	(3,219)
Balance at December 31, 2001	26,744,579	$15,052	$ 210,859	$(9,772)	$(2,062)	$143,487	$(35,144)	$ 322,420

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

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2001	2000	1999
Cash flows from operating activities:			
Net income	$ 24,441	$ 19,114	$ 29,481
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,487	11,871	10,891
Amortization of unearned compensation	596	389	349
Provision for doubtful accounts	6,319	5,386	3,389
Non-cash restructuring charges	2,938	6,981	--
Investment write-down	--	2,169	--
Net investment gains	--	--	(920)
Deferred income taxes	(1,838)	1,241	1,120
Non-cash stock contribution to 401(k) plan	900	990	844
Tax benefit from exercise of stock options	167	276	508
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	14,150	(2,362)	(12,325)
Inventories	19,534	12,970	(10,320)
Accounts payable and accrued liabilities	(25,830)	(5,751)	23,992
Other, net	(291)	(4,214)	(5,115)
Net cash provided by operating activities	52,573	49,060	41,894
Cash flows from investing activities:			
Capital expenditures	(4,624)	(7,032)	(6,236)
Proceeds from sale of property and equipment	1,285	--	--
Business acquisitions, net of cash acquired	--	(896)	(26,440)
Purchases of marketable securities	--	--	(1,042)
Proceeds from the sale of marketable securities	--	--	17,597
Other, net	35	(2,175)	4,250
Net cash used in investing activities	(3,304)	(10,103)	(11,871)
Cash flows from financing activities:			
Net repayments under revolving credit agreement	(68,000)	(17,000)	(13,000)
Proceeds from issuance of long-term notes	30,000	--	--
Net repayments of bank and other debt	(1,901)	(5,565)	(1,111)
Net proceeds from issuances of common stock	840	1,246	1,494
Common stock dividends	(2,638)	(2,737)	(2,850)
Purchase of treasury stock	(3,219)	(17,604)	(14,321)
Net cash used in financing activities	(44,918)	(41,660)	(29,788)
Net increase (decrease) in cash and cash equivalents	4,351	(2,703)	235
Cash and cash equivalents at beginning of year	4,781	7,484	7,249
Cash and cash equivalents at end of year	$ 9,132	$ 4,781	$ 7,484

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

1. Significant Accounting Policies

Nature of Operations
Watsco, Inc. and its subsidiaries (collectively, the "Company" or "Watsco") is the largest independent distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC") in the United States. The Company has two business segments - the HVAC distribution ("Distribution") segment, which accounted for 96% of 2001 revenue and presently operates from 284 locations in 30 states and a national temporary staffing and permanent employment services ("Staffing") segment, which accounted for 4% of 2001 revenue. Included in the Distribution segment are operations that sell products specifically designed for the manufactured housing market.

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.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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. Significant estimates include valuation reserves for accounts receivable and inventory, income taxes and restructuring. Actual results could differ from those estimates.

Revenue Recognition
The Company recognizes revenue in accordance with SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements", as amended by SAB 101A and 101B. Revenue for the Company primarily consists of sales of air conditioning, heating and refrigeration equipment and related parts and supplies and service fee revenue from the Company's Staffing segment. SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the amounts recognized are fixed and determinable, and (4) collectibility is reasonably assured. The Company records revenue after it receives a purchase commitment with a fixed determinable price from the customer and shipment of products or delivery of services has occurred. The Company assesses collection based on a number of factors, including past transactions and credit-worthiness of customers. Substantially all customer returns are under warranty by the Company's manufacturers. Accordingly, the Company's risk of loss for customer returns is not material.

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
Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are stated at the lower of cost (first-in, first-out method) or market. Provision is made as necessary to reduce excess or obsolete inventories to their estimated net realizable value.

Property and Equipment
Property and equipment are stated at cost. Depreciation and amortization of property and equipment is computed using the straight-line method. Buildings and improvements are being depreciated or amortized over estimated useful lives ranging from 2-40 years. Leasehold improvements are amortized over the shorter of the respective lease terms or useful lives. Estimated useful lives for other depreciable assets range from 3-12 years. Depreciation and amortization related to property and equipment amounted to $7,900, $8,259 and $7,634 for the years ended December 31, 2001, 2000 and 1999, respectively.

Intangible Assets
Intangible assets, net of accumulated amortization of $16,513 and $13,273 at December 31, 2001 and 2000, respectively, consist 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 presently assesses the recoverability of long-lived assets by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows of the operation.

The amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of long-lived assets will be impacted if estimated future operating cash flows are not achieved. Amortization expense related to intangible assets amounted to $3,587, $3,612 and $3,257 for the years ended December 31, 2001, 2000 and 1999, respectively.

Investment Securities

Investments in marketable equity securities of $204 and $255 at December 31, 2001 and 2000, respectively, are included in other assets and are classified as available-for-sale. The Company records the securities at fair value with unrealized holding gains and losses, net of applicable income taxes, included as a separate component of shareholders' equity. Dividend and interest income are recognized when earned. The difference between cost and market was an unrealized holding gain of $95 and $105 in 2001 and 2000, respectively, net of income tax expense of $56 and $62 in 2001 and 2000, respectively. During the year ended December 31, 2000, the Company recorded a $2,169 write-down related to the permanent impairment of an investment in marketable securities. The marketable securities were 75,166 shares in stock of a then publicly traded company. The Company's original basis was $29.26 per share and had declined to 41 cents per share at December 31, 2000. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Equity Securities," the Company determined that the investment had been permanently impaired based on the probability of recovering the original investment, the financial condition and prospects of the entity and other factors. In May 2001, all of the outstanding shares of the issuer's common stock were disposed of following a merger at a tender offer price of 45 cents per share. Accordingly, the Company sold all outstanding shares held in this investment.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to $4,305, $4,833 and $5,179 for the years ended December 31, 2001, 2000 and 1999, respectively.

Income Taxes

The Company provides for federal and state income taxes currently payable, as well as for those deferred because of temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities reflect the temporary differences between the financial statement and income tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. The Company and its eligible subsidiaries file a consolidated U.S. federal income tax return.

Stock-Based Compensation

As described in Note 7, the Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its fixed plan stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

Earnings Per Share

Basic earnings per share is computed by dividing net income by the total of the weighted average number of shares outstanding. Diluted earnings per share additionally assumes, if dilutive, any added dilution from common stock equivalents.

Shares used to calculate earnings per share are as follows:

Years Ended December 31,	2001	2000	1999
Weighted average shares outstanding	25,946,110	26,549,211	28,498,683
Dilutive stock options and restricted shares of common stock	1,304,941	1,243,821	1,242,157
Shares for diluted earnings per share	27,251,051	27,793,032	29,740,840
Stock options and restricted shares of common stock outstanding which are not included in the calculation of diluted earnings per share because their impact is antidilutive	1,994,350	2,886,251	1,565,868

Derivative Instruments
Effective January 1, 2001, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which established accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income ("OCI") and are recognized in the income statement when the hedged items affect earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. See Note 3, "Derivative Financial Instruments," for further information regarding the Company's hedging activities.

Comprehensive Income
Comprehensive income consists of net income and changes in the value of available-for-sale securities and derivative instruments at December 31, 2001, 2000 and 1999. The changes in components of other comprehensive income for available-for-sale and derivative instruments for the years ended December 31, 2001, 2000 and 1999, respectively, are as follows:

Years Ended December 31,	2001	2000	1999
Unrealized loss on derivative instruments, net of income tax benefit of $894	$(1,528)	$ --	$ --
Cumulative effect of accounting change of derivative instruments, net of income tax benefit of $372	(629)	--	--
Unrealized holding losses of available-for-sales securities arising during the period, net of income tax benefit of $4, $27 and $382, respectively	(11)	(45)	(651)
Reclassification adjustment of available-for-sale securities for losses realized in income, net of income taxes of $1, in 2001 and $1,729 in 1999	1	--	2,944
Reclassification adjustment for losses realized from the write-down of available-for-sale securities, net of income tax of $480	--	819	--
Changes in value of available-for-sale securities and derivative instruments, net of income taxes	$(2,167)	$ 774	$ 2,293

Shipping & Handling
In July 2000, the Emerging Issues Task Force ("EITF") issued 00-10, "Accounting for Shipping and Handling Fees and Costs." EITF 00-10 became effective in the fourth quarter of 2000. EITF 00-10 prohibits the netting of shipping and handling costs against shipping and handling revenue. EITF 00-10 permits companies to adopt a policy of including shipping and handling costs in cost of sales or other income statement line items. Prior year balances have been reclassified in accordance with EITF 00-10. Shipping and handling costs included in selling, general and administrative expenses amounted to $5,697, $6,438 and $5,657 for the years ended December 31, 2001, 2000 and 1999, respectively.

Restructuring
The Company records restructuring liabilities at the time the Board of Directors (the "Board") approves and commits to a restructuring plan that identifies all significant actions to be taken and the expected completion date of the plan is within a reasonable period of time. The restructuring liability includes those restructuring costs that can be reasonably estimated, are not associated with or do not benefit activities that will be continued and are not associated with or are not incurred to generate revenue after the plan's commitment date. Restructuring costs are incurred as a direct result of the plan and are incremental to other costs incurred by the Company in the conduct of its activities prior to the commitment date or existed prior to the commitment date under a contractual obligation that will either continue after the exit plan is completed with no economic benefit to the Company or reflect a penalty to cancel a contractual obligation. See Note 9, "Restructuring and Non-Cash Charges," for further information regarding the Company's restructuring programs.

New Accounting Pronouncements
In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations." SFAS No. 141 eliminates the pooling-of-interests method of accounting for business combinations and modifies the application of the purchase accounting method. The elimination of the pooling-of-interest method is effective for transactions initiated after June 30, 2001. The

remaining provisions of SFAS No. 141 will be effective for transactions accounted for using the purchase method that are completed after June 30, 2001. The Company's adoption of SFAS No. 141 did not have an impact on its consolidated financial statements.

In June 2001, the FASB also issued SFAS No. 142 "Goodwill and Intangible Assets." SFAS No. 142 eliminates the current requirement to amortize goodwill and indefinite-lived intangible assets, addresses the amortization of intangible assets with a defined life and addresses the impairment testing and recognition for goodwill and intangible assets. SFAS No. 142 will apply to goodwill and intangible assets arising from transactions completed before and after the Statement's effective date. SFAS No. 142 is effective for fiscal 2002. Upon adoption, the Company will no longer record approximately $3,500 of amortization expense related to its intangible assets. In lieu of amortizing goodwill, the Company is required to perform an initial impairment review of goodwill in 2002 and an annual impairment review thereafter. In accordance with SFAS No. 142, the Company expects to complete the initial review by June 30, 2002. There can be no assurance that at the time the review is completed a material impairment charge will not be recorded.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made and subsequently allocated to expense using a systematic and rational method. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and subsequently allocated to expense over the asset's useful life. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not believe that the adoption of SFAS No. 143 will have a significant impact on its consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets." SFAS No. 144 replaces SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and the accounting and reporting provisions of Accounting Principles Board Opinion ("APB") No. 30, "Reporting the Results of Operations - Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 also amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 establishes a single accounting model for assets to be disposed of by sale whether previously held and used or newly acquired. SFAS No. 144 retains the provisions of APB No. 30 for presentation of discontinued operations in the income statement, but broadens the presentation to include a component of an entity. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. The Company does not believe that the adoption of SFAS No. 144 will have a material impact on its consolidated financial statements.

2. Supplier Concentration

The Company has distribution agreements with its five key equipment suppliers. Purchases from these five suppliers comprised 45%, 46% and 43% of all purchases made in 2001, 2000 and 1999, respectively. The Company's largest supplier accounted for 16%, 16% and 18% of all purchases made in 2001, 2000 and 1999, respectively. Any significant interruption by the manufacturers or a termination of a distribution agreement could temporarily disrupt the operations of certain subsidiaries. The Company believes that its sales of other complementary equipment products and continued emphasis to expand sales of parts and supplies are mitigating factors against this risk.

3. Derivative Financial Instruments

The Company enters into interest rate swap agreements to reduce its exposure to market risks from changing interest rates. 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. The Company does not hold or issue such financial instruments for trading purposes. Derivatives used for hedging purposes must be designated as, and effective as, a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

The adoption of SFAS No. 133 on January 1, 2001 resulted in a cumulative pre-tax reduction to OCI of $1,001 ($629 after-tax). The Company also recorded a loss of $1,528, net of income tax benefit of $894 in OCI relating to the change in value of the cash flow hedges for the year ended December 31, 2001. The fair market value of the derivative financial instruments at December 31, 2001 was $3,424 and is recorded in other liabilities in the Company's consolidated balance sheet at December 31, 2001.

During the year ended December 31, 2001, the Company reclassified $1,234 from accumulated other comprehensive income to current period earnings (recorded as interest expense, net in the consolidated statement of income). The net deferred loss recorded in accumulated other comprehensive income will be reclassified to earnings on a quarterly basis as interest payments occur. As of December 31, 2001, approximately $2,100 in deferred losses on derivative instruments accumulated in other comprehensive income is expected to be reclassified to earnings during the next twelve months using a current three month LIBOR-based average receive rate (2.60% at December 31, 2001).

4. Property and Equipment, net

Property and equipment, net, consists of:

December 31,	2001	2000
Land, buildings and improvements	$ 17,616	$ 17,698
Machinery, vehicles and equipment	37,895	34,643
Furniture and fixtures	19,482	19,127
	74,993	71,468
Less: accumulated depreciation and amortization	(44,290)	(41,210)
	$ 30,703	$ 30,258

5. Long-Term Obligations

Revolving Credit Agreement

The Company maintains a bank-syndicated revolving credit agreement that provides for borrowings of up to $315,000, 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 aggregated $70,000 and $138,000 at December 31, 2001 and 2000, respectively, and bear interest at primarily London Interbank Offered Rate ("LIBOR") based rates plus a spread that is dependent upon the Company's financial performance (LIBOR plus .5% and .6% as of December 31, 2001 and 2000, respectively). The Company must pay a variable commitment fee on the unused portion of the commitment. The revolving credit agreement contains customary affirmative and negative covenants including certain 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. The Company was in compliance with all covenants at December 31, 2001. See Note 3 for details regarding related interest rate swap agreements designated as hedges.

On February 11, 2002, the Company signed a commitment letter with SunTrust Robinson Humphrey Capital Markets, ("SunTrust") to act as agent for a $225,000 bank-syndicated revolving credit agreement to refinance the existing facility through 2005. Borrowings under the proposed revolving credit agreement would bear interest at primarily LIBOR based rates plus a spread that is dependent upon the Company's financial performance. The Company will pay a variable commitment fee on the unused portion of the commitment. The proposed revolving credit agreement contains customary affirmative and negative covenants. On March 22, 2002, SunTrust received final commitments from lenders totaling $225,000 subject to final execution of loan documents. Although, no assurances can be made, the Company anticipates closing of the new facility during the second quarter of 2002. Based on the Company's ability and intent to refinance the existing revolving credit agreement on a long-term basis, the borrowings under the existing credit agreement, which aggregated $70,000 at December 31, 2001, have been classified as long-term debt in the Company's consolidated balance sheet at December 31, 2001.

Long-term Notes

On January 31, 2000, the Company entered into a $125,000 private placement shelf facility. The uncommitted loan facility provides the Company a source of long-term, fixed-rate financing as a complement to the variable rate borrowings available under its existing revolving credit agreement. On February 7, 2001, the Company issued $30,000 Senior Series A Notes ("Notes") bearing 7.07% interest under its private placement shelf facility. The Notes have an average life of 5 years with repayment in equal installments of $10,000 beginning on April 9, 2005 until the final maturity on April 9, 2007. Interest is paid on a quarterly basis. The Company used the net proceeds from the issuance of the Notes for the repayment of a portion of its outstanding indebtedness under its revolving credit facility.

Bank and Other Debt

Bank and other debt (net of current portion) of $1,900 and $2,878 at December 31, 2001 and 2000, respectively, primarily consists of promissory notes issued for business acquisitions and capital leases on equipment. Interest rates on bank and other debt range from 4% to 13% and mature at varying dates through 2008.

Annual maturities of bank and other debt for the years subsequent to December 31, 2001 are $429 in 2002, $1,259 in 2003, $307 in 2004, $92 in 2005, $90 in 2006 and $152 thereafter.

Total cash payments for interest were $9,888, $12,499 and $13,183 for the years ended December 31, 2001, 2000 and 1999, respectively.

6. Income Taxes

The components of income tax expense (benefit) are as follows:

Years Ended December 31,	2001	2000	1999
Federal	$ 14,587	$ 11,087	$ 16,489
State	(659)	234	826
	$ 13,928	$ 11,321	$ 17,315
Current	$ 15,766	$ 10,080	$ 16,195
Deferred	(1,838)	1,241	1,120
	$ 13,928	$ 11,321	$ 17,315

Following is a reconciliation of the effective income tax rate:

Years Ended December 31,	2001	2000	1999
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	1.3	2.2	2.0
	36.3%	37.2%	37.0%

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

December 31,	2001	2000
Deferred tax assets:		
Accounts receivable reserves	$ 2,295	$ 2,593
Capitalized inventory costs and inventory reserves	4,740	2,453
Unrealized loss on investments	--	807
Net operating loss carryforwards of subsidiaries	1,295	487
Other	1,606	1,099
	9,936	7,439
Deferred tax liabilities:		
Deductible goodwill	(4,886)	(3,938)
Depreciation and amortization	(101)	(437)
Other	(948)	(901)
	(5,935)	(5,276)
Net deferred tax assets (1)	$ 4,001	$ 2,163

(1) Net deferred tax assets of $7,615 and $5,718 have been included in the consolidated balance sheets in "Other current assets" at December 31, 2001 and 2000, respectively.

The Company has deferred tax assets related to available Federal and state net operating loss carryforwards ("NOLs") of $1,295, which expire in 2005. In accordance with SFAS No. 109, "Accounting for Income Taxes," the deferred tax assets reflect the expected tax benefit of such NOLs to the extent that management has assessed the utilization of such NOLs to be more likely than not. Management has determined, based on the recent taxable income and expectations for the future, that taxable income will be sufficient to fully utilize the available NOLs.

Total cash payments for income taxes were $13,280, $11,247 and $15,745 for the years ended December 31, 2001, 2000 and 1999, respectively.

7. Stock Based Compensation and Benefit Plans

Stock Option Plans

In June 2001, the Company's shareholders approved the 2001 Incentive Compensation Plan ("2001 Plan"). The 2001 Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors ("Board"). The 2001 Plan provides for the award of a broad variety of stock-based compensation alternatives such as non-qualified stock options, incentive stock options, restricted stock, performance awards, dividend equivalents, deferred stock and stock appreciation rights at no less than 100% of the market price on the date the option is granted. Options under the 2001 Plan are for a term of ten years and are exercisable as determined by the Committee. Under the 2001 Plan, awards for an aggregate of 3,000,000 shares of Common Stock and Class B Common Stock may be granted. Options as to 303,125 of Common Stock and 200,000 of Class B Common Stock have been granted through December 31, 2001. There were 2,374,202 shares of common stock reserved for future grants as of December 31, 2001 under the 2001 Plan.

The Company's 2001 Plan provides for acceleration of exercisability of the options upon the occurrence of certain events relating to a change of control, merger, sale of assets or liquidation of the Company. Additionally, the Committee or Board may impose on any award or the exercise thereof, at the date of grant or thereafter, such additional terms and conditions not inconsistent with the provisions of the 2001 Plan, as the Committee or the Board shall determine, including terms requiring forfeiture of awards in the event of termination of employment by the participant and terms permitting a participant to make elections relating to his or her award. The Committee or the Board shall retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an award that is not mandatory under the 2001 Plan.

The Company also has two other expired stock option plans. The 1991 Stock Option Plan (the "1991 Plan") expired in 2001, and the 1983 Stock Option Plan (the "1983 Plan") expired in 1993; therefore, no additional options may be granted. Options as to 6,437,842 of common stock were granted under these expired plans through December 31, 2001. Options under the 1991 Plan are for a term of ten years and are exercisable as determined by the Committee. Options as to 33,750 shares of Common Stock are outstanding under the 1983 Plan at December 31, 2001. Under either plan, the Committee may waive the vesting period and permit options to be exercised immediately.

A summary of option activity is shown below:

	2001		2000		1999	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding on January 1,	4,923,096	$ 10.78	4,157,833	$ 11.23	3,747,830	$ 10.75
Granted	655,325	11.46	1,121,289	9.39	703,000	13.46
Exercised	(69,301)	6.95	(91,275)	5.84	(140,210)	5.56
Forfeited	(505,311)	15.11	(264,751)	13.75	(152,787)	14.98
Outstanding on December 31,	5,003,809	$ 10.48	4,923,096	$ 10.78	4,157,833	$ 11.23
Options exercisable at end of year	3,428,980	$ 10.07	3,158,851	$ 10.01	2,650,365	$ 8.87

The following sets forth certain information with respect to those stock options outstanding on December 31, 2001:

	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2001	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Number Outstanding at December 31, 2001	Weighted-Average Exercise Price
$2.32 - $5.00	1,226,284	$ 3.83	1.2	1,226,284	$ 3.83
$5.01 - $10.00	1,008,850	8.29	7.1	485,183	7.96
$10.01-$15.00	1,514,050	12.52	8.1	610,026	13.22
$15.01-$20.00	1,242,625	16.22	5.7	1,099,537	16.13
$20.01-$23.17	12,000	22.26	6.1	7,950	22.07
	5,003,809	$ 10.48	5.6	3,428,980	$ 10.07

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 800,000 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 2001, 2000, and 1999 employees purchased 31,681, 77,822 and 70,909 shares of Common Stock at an average price of $10.38, $8.54 and $11.52 per share, respectively. Cash dividends received by the Employee Stock Purchase Plan were reinvested in the Company's Common Stock and resulted in additional shares issued in the amount of 1,767, 2,322 and 1,892, for the year ended December 31, 2001, 2000 and 1999, respectively. At December 31, 2001, 242,528 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 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,		2001	2000	1999
Net income	As reported	$ 24,441	$ 19,114	$ 29,481
	Pro forma	$ 20,254	$ 14,853	$ 25,823
Basic earnings per share	As reported	$ 0.94	$ 0.72	$ 1.03
	Pro forma	$ 0.78	$ 0.56	$ 0.91
Diluted earnings per share	As reported	$ 0.90	$ 0.69	$ 0.99
	Pro forma	$ 0.74	$ 0.53	$ 0.87

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 2001, 2000 and 1999 was $8.16, $6.56 and $7.64, respectively, and was estimated using the Black-Scholes option valuation model with the following weighted-average assumptions:

Years Ended December 31,	2001	2000	1999
Expected life in years	7.2	7.7	8.2
Risk-free interest rate	5.1%	5.1%	6.1%
Expected volatility	67.5%	71.5%	43.3%
Dividend yield	0.7%	0.8%	0.5%

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 2001, 2000 and 1999, certain employees were granted an aggregate of 252,500, 127,000 and 93,000 shares, respectively, of the Company's common stock, subject to certain restrictions. Also during 2001, the Company granted 122,673 shares of restricted common stock under the 2001 Plan. The restrictions lapse upon attainment of retirement age or under other circumstances. During 2001 and 2000, 30,000, and 45,000 shares, respectively, were forfeited upon certain employee terminations. The unearned compensation resulting from the grant of restricted shares is reported as a reduction to shareholders' equity in the consolidated balance sheets 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 $596, $389 and $349 for the years ended December 31, 2001, 2000 and 1999, respectively.

401(k) Plan.

The Company has a profit sharing retirement plan for its employees that 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, 2001, 2000 and 1999, the aggregate contribution to the plan was $909, $998 and $893, respectively.

8. Acquisitions

The Company has completed various acquisitions, all of which have been accounted for under the purchase method of accounting. Accordingly, their results of operations have been included in the consolidated statements of income beginning on their respective dates of acquisition.

During 2000, the Company completed the acquisition of a refrigeration equipment distributor in Florida for cash consideration of $896.

During 1999, the Company completed the acquisition of six wholesale distributors of air conditioning and heating products and one staffing service franchise for cash consideration of $26,440 (net of cash acquired), including repayment of debt totaling $4,592, the issuance of a $6,098 promissory note and 842,569 shares of Common Stock having a fair value of $9,350.

The unaudited pro forma information of the Company as if the above acquisitions had occurred on January 1, 1999 is as follows:

Years Ended December 31,	1999
Revenue	$1,282,621
Net income	$ 32,175
Diluted earnings per share	$ 1.07

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, 1999 for the years presented or of future results of operations. The 2000 acquisition was not material to the Company's operations.

9. Restructuring and Non-Cash Charges

During 2001 and 2000, the Company implemented several initiatives to improve operating efficiency and enhance profitability. As a result of these initiatives, the Company closed certain under performing locations and reduced market overlap, disposed of inventory related to discontinued product lines, eliminated other nonproductive SKUs, integrated operations of certain subsidiaries and exited certain business relationships. Accordingly, the Company recorded significant restructuring and non-cash charges as follows.

2001 Restructuring Plan

In September 2001, the Company's Board approved plans to integrate the operations of the Company's manufactured housing subsidiaries, close locations in the Distribution and Staffing segments and exit certain licensee relationships in the Staffing segment (the "2001 Restructuring Plan"). In connection with the 2001 Restructuring Plan, 6 distribution locations will close during 2002 and 7 staffing locations closed in 2001.

The Company recorded restructuring charges of $3,424 ($2,181 after-tax) during the third quarter of 2001 in accordance with EITF Issue 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)," SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and SEC SAB No. 100, "Restructuring & Impairment Charges." The portion of the restructuring charge that relates to the valuation of inventory to be disposed of ($328 on a pre-tax basis) has been classified in cost of sales in the Company's consolidated statement of income for the year ended December 31, 2001. During the year ended December 31, 2001, the Company reversed restructuring charges of $227, primarily due to lease buy-outs settled at more favorable terms than expected. The 2001 Restructuring Plan initiatives are expected to be completed in 2002.

Also during the third quarter of 2001, the Company recorded non-cash charges of $1,085 for the write-off of an asset related to a supply arrangement in the Distribution segment, $827 for additional accounts receivable valuation reserves in the Staffing segment and $686 related to a terminated licensee's workers compensation program in the Staffing segment. Non-cash charges are included in selling, general and administrative expenses, except for the charge related to the worker's compensation program, which is included in cost of sales in the Company's consolidated statement of income for the year ended December 31, 2001.

On an after-tax basis the restructuring and other non-cash charges were $3,691 for the year ended December 31, 2001.

2000 Restructuring Plan

In December 2000, the Company's Board approved plans adopted by certain operating subsidiaries to close certain under performing locations and reduce market overlap, dispose of inventory related to discontinued product lines and eliminate other nonproductive SKUs (the "2000 Restructuring Plan"). In connection with the 2000 Restructuring Plan, 25 distribution locations closed during 2000 and 7 distribution locations closed during 2001.

The Company recorded restructuring charges of $8,481 ($5,326 after-tax) during the fourth quarter of 2000. A portion of this restructuring charge ($4,269 on a pre-tax basis) relates to the valuation of inventory to be disposed of and has been classified in cost of sales in the Company's consolidated statement of income for the year ended December 31, 2000.

Also during the fourth quarter of 2000, the Company recorded non-cash charges of $788 related to additional inventory reserves in cost of sales, $1,731 related to accounts receivable valuation reserves in the manufactured housing operations in selling, general and administrative expenses and $2,169 related to the write-down of an impaired investment in one of the Company's primary competitors in other expense. See Note 1 for additional information regarding the Company's policy on accounting for available-for-sale securities.

On an after-tax basis, restructuring and other non-cash charges were $8,270 for the year ended December 31, 2000. The restructuring activities relating to the 2000 Restructuring Plan have been completed and accordingly, no further restructuring reserves remain as of December 31, 2001.

The following table summarizes the activity in restructuring liabilities or valuation reserves during the years ended December 31, 2001 and 2000 for the 2001 and 2000 Restructuring Plans:

	Balance January 1	Restructuring Charges	Utilized Cash	Utilized Non-cash	Change in Estimate	Balance December 31
2001 Activity:						
Discontinued product lines	$ 3,484	$ 328	$ --	$(3,484)	$ --	$ 328
Noncancelable lease obligations	1,194	1,424	(1,224)	--	(303)	1,091
Other	409	358	(524)	(25)	76	294
Asset write-down	68	1,314	--	(1,382)	--	--
	$ 5,155	$ 3,424	$(1,748)	$(4,891)	$ (227)	$ 1,713
2000 Activity:						
Discontinued product lines	$ --	$ 4,269	$ --	$ (785)	$ --	$ 3,484
Noncancelable lease obligations	--	1,541	(347)	--	--	1,194
Write-down of accounts receivable	--	924	--	(894)	--	30
Employee severance and benefits	--	326	(272)	--	--	54
Write-down of property and equipment	--	185	--	(147)	--	38
Other	--	1,236	(881)	--	--	355
	$ --	$ 8,481	$(1,500)	$(1,826)	$ --	$ 5,155

At December 31, 2001, a restructuring liability of $1,385 is included in accrued liabilities and an inventory valuation reserve of $328 is netted against inventories in the consolidated balance sheet. At December 31, 2000, valuation reserves of $3,484 and $30, respectively, are netted against related asset balances - inventories and accounts receivable, net and a $1,641 restructuring liability is included in accrued liabilities in the consolidated balance sheet.

The restructuring charges were determined based on formal plans approved by the Company's Board using the best information available to it at the time. The amounts the Company may ultimately incur may change, as the balance of the Company's initiatives to streamline operations are executed. The Company expects that the restructuring activities will result in a simplified operating structure that should enhance future profitability.

10. Shareholders' Equity

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 (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board; (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 April 2001, the Company's Board of Directors approved and the shareholders ratified, an amendment to the Company's Amended and Restated Articles of Incorporation, to increase the number of authorized shares of Common Stock of the Company from 40,000,000 to 60,000,000 and increase the number of authorized shares of Class B Common Stock of the Company from 4,000,000 to 10,000,000.

The Company's Board authorized the repurchase, at management's discretion, of up to 6,000,000 shares of the Company's stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders' equity. The Company purchased 263,800 shares at a cost of $3,219 in 2001, 1,749,313 shares at a cost of $17,604 in 2000 and 1,346,200 shares at a cost of $14,321 in 1999. In aggregate, the Company has repurchased 3,359,313 shares of Common Stock and Class B Common Stock at a cost of $35,144.

In December 2001, the Company's Board declared a quarterly dividend to be paid in January 2002. The dividend totaled $664 and is included in accrued liabilities at December 31, 2001 in the accompanying balance sheet.

11. 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 and debt instruments included in other long-term obligations. At December 31, 2001 and 2000, 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.

Off-Balance Sheet Financial Instruments
The Company uses interest rate swaps to alter the interest rate risk profile related to outstanding borrowings under its revolving credit agreement, thereby altering the Company's exposure to changes in interest rates. The swap agreements exchange the variable rate of LIBOR plus the spread on its revolving credit agreement to fixed interest rate payments ranging from 6.25% to 6.49% in 2001 and 2000. At December 31, 2001 and 2000, the Company's interest rate swap portfolio consisted of several swaps aggregating a notional value of $60,000 and maturity dates ranging from 2002 to 2007. All interest rate swaps at December 31, 2001 are highly effective.

At December 31, 2001 and 2000, respectively, the Company is contingently liable under standby letters of credit aggregating approximately $3,400 and $2,300, respectively, that were primarily used as collateral to cover any contingency related to additional risk assessments pertaining to the self-insurance programs maintained by the Company. The Company does not expect any material losses to result from the issuance of the standby letters of credit because claims are not expected to exceed premiums paid. 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, 2001 and 2000, the allowance for doubtful accounts was $6,321 and $6,970, respectively. Although the Company believes its allowance is sufficient, if the financial condition of the

Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

12. Commitments and Contingencies

At December 31, 2001, the Company is obligated under non-cancelable operating leases of real property and equipment used in its operations for minimum annual rentals of $26,920 in 2002, $21,429 in 2003, $16,454 in 2004, $11,534 in 2005, $7,064 in 2006 and $11,317 thereafter. Rental expense for the years ended December 31, 2001, 2000 and 1999 was $27,962, $26,462 and $25,831, respectively.

The Company and its subsidiaries are involved in litigation incidental to the operation of the Company's business. The Company vigorously defends all matters in which the Company or its subsidiaries are named defendants and, for insurable losses, maintains significant levels of insurance to protect against adverse judgments, claims or assessments that may affect the Company. In the opinion of the Company, although the adequacy of existing insurance coverage or the outcome of any legal proceedings cannot be predicted with certainty, the ultimate liability associated with any claims or litigation in which the Company or its subsidiaries are involved will not materially affect the Company's financial condition or results of operations.

Self-insurance

The Company retains certain self-insurance risks for health benefits and casualty insurance programs. The Company has limited its exposure by maintaining excess and aggregate liability coverages. Self-insurance reserves are established based on claims filed and estimates of claims incurred but not reported. The estimates are based on data provided by the respective claims administrators.

13. Segment Information

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires companies to provide certain information about their operating segments. The Company has two reportable segments: HVAC equipment and related parts and supplies - which comprises 96%, 95% and 95% of revenue in 2001, 2000, and 1999, respectively, and a personnel staffing services business. The Distribution segment has similar products, customers, marketing strategies and operations. The operating segments are managed separately because each offers distinct products and services.

The reporting segments follow the same accounting policies used for the Company's consolidated financial statements as described in Note 1. The chief operating decision maker evaluates performance of the segments based on operating income. Costs excluded from this profit measure are interest expense and income taxes. Corporate expenses are primarily comprised of corporate overhead expenses. Thus, operating income includes only the costs that are directly attributable to the operations of the individual segment. Assets not identifiable to an individual segment are corporate assets, which are primarily comprised of cash and cash equivalents, deferred taxes, fixed assets and goodwill.

No single customer accounted for more than 10% of the Company's revenue in 2001.

Years ended December 31,	2001	2000	1999
Revenue:			
Distribution	$ 1,194,587	$ 1,243,208	$ 1,185,366
Staffing	44,059	66,958	64,184
	$ 1,238,646	$ 1,310,166	$ 1,249,550
Operating income:			
Distribution	$ 60,659	$ 53,098	$ 64,069
Staffing	(2,265)	2,975	2,541
Corporate expenses	(10,070)	(10,258)	(7,171)
	$ 48,324	$ 45,815	$ 59,439
Depreciation and amortization:			
Distribution	$ 10,713	$ 11,020	$ 10,092
Staffing	548	607	554
Corporate	226	244	245
	$ 11,487	$ 11,871	$ 10,891

Restructuring and non-cash charges:			
Distribution	$ 3,272	$ 11,000	$ --
Staffing	2,523	--	--
Corporate	--	2,169	--
	$ 5,795	$ 13,169	$ --
Assets:			
Distribution	$ 476,499	$ 522,157	$ 548,233
Staffing	10,836	16,579	15,883
Corporate	33,485	24,734	24,064
	$ 520,820	$ 563,470	$ 588,180
Capital expenditures:			
Distribution	$ 4,366	$ 6,505	$ 5,851
Staffing	228	455	300
Corporate	30	72	85
	$ 4,624	$ 7,032	$ 6,236

14. Subsequent Events

In January 2002, the Company signed a multi-year agreement with Whirlpool Corporation to be the exclusive national distributor for a new line of central air conditioning and heating equipment carrying the Whirlpool brand name. The Whirlpool-brand HVAC product offering will include a complete line of residential and light-commercial central air conditioning and heating equipment with state-of-the-art features, including quiet, reliable and energy-efficient operation. These products, which will be sold and jointly marketed to the replacement and new construction markets, are expected to be available by early 2003 following the qualification and selection of manufacturers. The terms, conditions and obligations of the agreement are contingent upon the selection and consummation of a manufacturing contract with an original equipment manufacturer.

In January 2002, the Company completed the purchase of the net assets and business of a wholesale distributor of air conditioning and heating products. Consideration for the acquisition consisted of cash payments of $603 and the issuance of 27,688 shares of Common Stock having a fair value of $330 and is subject to adjustment upon the completion of an audit of the assets purchased and liabilities assumed. The acquisition will be accounted for under the purchase method of accounting in accordance with SFAS No. 141.

In February 2002, the Company's Board approved an increase in the quarterly cash dividend to $.03 per share from $.025 per share. On an annualized basis the dividend rate will be $.12 per share. The first dividend at the new rate will be paid on April 30, 2002.

As of March 22, 2002, the Company had obtained sufficient commitments from financial institutions to pay off the existing revolver debt, which expires on August 8, 2002. See Note 5 for additional information.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To Watsco, Inc.:

We have audited the accompanying consolidated balance sheets of Watsco, Inc. (a Florida corporation) and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 2001. 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 auditing standards generally accepted in the United States. 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, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2001, Watsco, Inc. and subsidiaries adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," which changed their method of accounting for derivative instruments.

ARTHUR ANDERSEN LLP

Miami, Florida,
February 11, 2002 (except with respect to the
matters discussed in Note 14, as to which the
date is March 22, 2002).

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

(In thousands, except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Year ended December 31, 2001:					
Revenue (1), (2)	$ 278,113	$ 351,149	$ 336,008	$ 273,376	$1,238,646
Gross profit(2)	68,762	84,011	80,721	65,546	299,040
Net income	$ 2,366	$ 12,984	$ 8,080	$ 1,011	$ 24,441
Diluted earnings per share (3), (4)	$ 0.09	$ 0.48	$ 0.29	$ 0.04	$ 0.90
Year ended December 31, 2000:					
Revenue (1), (2)	$ 287,050	$ 371,747	$ 361,723	$ 289,646	$1,310,166
Gross profit(2)	68,173	88,695	86,435	63,477	306,780
Net income (loss)	$ 3,054	$ 12,620	$ 11,913	$ (8,473)	$ 19,114
Diluted earnings (loss) per share (3), (5)	$ 0.11	$ 0.45	$ 0.43	$ (0.32)	$ 0.69

(1) Sales of residential central air conditioners, heat equipment and parts and supplies 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 except for dependence on housing completions and related weather and economic conditions.

(2) Revenue and gross profit for all periods presented have been restated to reflect the classification of shipping and handling costs billed to customers in accordance with Emerging Issues Task Force 00-10, "Accounting for Shipping and Handling Fees and Costs," as more fully described in Note 1 of the consolidated financial statements.

(3) 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, the summation of each quarter may not equal the amount calculated for the year as a whole.

(4) During the 3rd Quarter of 2001, the Company recorded restructuring and other non-cash charges of $3,691 or $0.14 per share on an after tax basis, as more fully described in Note 9 to the consolidated financial statements.

(5) During the 4th Quarter of 2000, the Company recorded restructuring and other non-cash charges of $8,270 or $0.30 per share on an after-tax basis, as more fully described in Note 9 to the consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
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, 2001, 2000 and 1999. At March 14, 2002, excluding shareholders with stock in street name, the Company had 496 Common Stock shareholders of record and 226 Class B Common Stock shareholders of record.

	Common		Class B		Cash Dividends	
	High	Low	High	Low	Common	Class B
Year Ended December 31, 2001:						
Fourth quarter	$ 14.590	$ 11.780	$ 14.350	$ 11.750	$ .025	$ .025
Third quarter	14.480	11.300	14.300	11.000	.025	.025
Second quarter	14.500	11.200	14.300	11.400	.025	.025
First quarter	13.930	10.480	13.750	11.000	.025	.025
Year Ended December 31, 2000:						
Fourth quarter	$ 12.040	$ 8.890	$ 11.812	$ 9.000	$ .025	$ .025
Third quarter	13.938	10.050	13.625	10.250	.025	.025
Second quarter	15.750	10.438	15.937	10.500	.025	.025
First quarter	12.500	8.375	12.812	8.875	.025	.025
Year Ended December 31, 1999:						
Fourth quarter	$ 13.125	$ 9.750	$ 12.875	$ 9.750	$ .025	$ .025
Third quarter	17.438	10.375	17.063	10.375	.025	.025
Second quarter	19.875	14.625	19.750	14.500	.025	.025
First quarter	18.625	11.250	18.188	13.500	.025	.025

Exhibit 21

REGISTRANT'S SUBSIDIARIES

The following table sets forth, at March 28, 2002, the Registrant's significant operating 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
ACDoctor.com Inc.	Texas
Air Supply, Inc.	California
Air Systems Distributors, Inc.	Florida
Atlantic Service & Supply, Inc.	Delaware
CAD Watsco, Inc.	Florida
Baker Distributing Company	Florida
Central Air Conditioning Distributors, Inc.	North Carolina
Coastline Distribution, Inc.	Delaware
Cool Holdings, Inc.	Delaware
Comfort Supply, Inc.	Delaware
CP Distributors, Inc. (d/b/a Central Plains Distributing, Superior Supply and Comfort Products Distributing)	Florida
Gemaire Distributors, Inc.	Florida
GMC Distributors, Inc. (d/b/a Kingaire)	Tennessee
H.B. Adams Distributors, Inc.	Florida
Heat, Incorporated	New Hampshire
Heating & Cooling Supply, Inc.	California
Homans Associates, Inc.	Massachusetts
NSI Supply, Inc.	Nevada
Three States Supply Company, Inc.	Tennessee
Weathertrol Supply Company	North Carolina
William Wurzbach Co. Inc.	California
WSO Distributors, LLC	Nevada
Staffing:	
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

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 l0-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 on Form S-8 (Nos. 33-6229, 33-72798, 333-10363, 333-80341 and 333-82011).

ARTHUR ANDERSEN LLP

Miami, Florida,
March 25, 2002.

Exhibit 99

March 28, 2002

To the Securities and Exchange Commission:

Arthur Andersen LLP ("Andersen") has represented to Watsco, Inc. that its audit for the year ended December 31, 2001 was subject to Andersen's quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards and that there was appropriate continuity of Andersen personnel working on the audit, availability of national office consultation and availability of personnel at affiliates of Andersen to conduct the relevant portions of the audit.

Very truly yours,

Watsco, Inc.