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

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997

or

Transition Report Pursuant To Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Transition Period From
___ to ___

Commission file number 1-5581

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date: 15,096,212 shares of the Company's Common Stock (\$.50 par value) and 2,172,647 shares of the Company's Class B Common Stock (\$.50 par value) were outstanding as of August 5, 1997.

PART I. FINANCIAL INFORMATION
WATSCO, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
JUNE 30, 1997 AND DECEMBER 31, 1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	JUNE 30, 1997	DECEMBER 31, 1996
	----- (Unaudited)	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,123	\$ 5,020
Marketable securities	1,138	334
Accounts receivable, net	110,119	59,523
Inventories	150,115	87,637
Other current assets	8,144	6,502
	-----	-----
Total current assets	275,639	159,016
Property, plant and equipment, net	25,245	16,174
Intangible assets, net	39,279	23,596
Other assets	9,050	4,795
	-----	-----
	\$349,213	\$203,581
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 994	\$ 794
Accounts payable	44,186	17,343

Accrued liabilities	16,129	10,884
	-----	-----
Total current liabilities	61,309	29,021
	-----	-----
Long-term obligations:		
Borrowings under revolving credit agreement	57,900	48,000
Bank and other debt	10,438	3,027
	-----	-----
	68,338	51,027
	-----	-----
Deferred income taxes and credits	1,671	1,604
Preferred stock of subsidiaries	4,413	2,000
Shareholders' equity:		
Common Stock, \$.50 par value	7,548	5,927
Class B Common Stock, \$.50 par value	1,086	1,089
Paid-in capital	156,578	72,129
Retained earnings	48,270	40,784
	-----	-----
Total shareholders' equity	213,482	119,929
	-----	-----
	\$349,213	\$203,581
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
QUARTER AND SIX MONTHS ENDED JUNE 30, 1997 AND 1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(UNAUDITED)

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
	-----	-----	-----	-----
Revenues:				
Net sales	\$171,153	\$110,669	\$272,898	\$181,344
Royalty and service fees	11,220	7,828	20,787	14,942
	-----	-----	-----	-----
Total revenues	182,373	118,497	293,685	196,286
	-----	-----	-----	-----
Costs and expenses:				
Cost of sales	133,274	86,249	211,125	140,920
Direct service expenses	8,784	6,029	16,219	11,512
Selling, general and administrative	29,338	18,474	51,088	32,840
	-----	-----	-----	-----
Total costs and expenses	171,396	110,752	278,432	185,272
	-----	-----	-----	-----
Operating income	10,977	7,745	15,253	11,014
Other income, net	251	283	464	352
Interest expense	(789)	(1,089)	(1,567)	(2,134)
	-----	-----	-----	-----
Income before income taxes and minority interests	10,439	6,939	14,150	9,232
Income taxes	(4,076)	(2,683)	(5,505)	(3,554)
Minority interests	-	-	-	(116)
	-----	-----	-----	-----
Net income	6,363	4,256	8,645	5,562
Retained earnings at beginning of period	42,543	30,524	40,784	29,565
Common stock cash dividends	(604)	(450)	(1,095)	(765)
Dividends on preferred stock of subsidiary	(32)	(32)	(64)	(64)
	-----	-----	-----	-----
Retained earnings at end of period	\$ 48,270	\$ 34,298	\$ 48,270	\$ 34,298
	=====	=====	=====	=====
Earnings per share:				
Primary	\$.35	\$.29	\$.50	\$.43
	=====	=====	=====	=====
Fully diluted	\$.35	\$.29	\$.50	\$.42
	=====	=====	=====	=====
Weighted average shares and equivalent shares used to calculate:				
Primary earnings per share	18,240	14,420	17,322	12,769
	=====	=====	=====	=====
Fully diluted earnings per share	18,240	14,791	17,322	13,221
	=====	=====	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 1997 AND 1996
(IN THOUSANDS)
(UNAUDITED)

	1997 ----	1996 ----
Cash flows from operating activities:		
Net income	\$ 8,645	\$ 5,562
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,724	1,870
Provision for doubtful accounts	798	509
Minority interests, net of dividends paid	-	116
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(29,636)	(14,692)
Inventories	(24,318)	(19,612)
Accounts payable and accrued liabilities	16,513	15,991
Other, net	(5,423)	273
Net cash used in operating activities	----- (30,697) -----	----- (9,983) -----
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(57,061)	(14,694)
Capital expenditures, net	(4,810)	(2,291)
Net sales (purchases) of marketable securities	(693)	267
Net cash used in investing activities	----- (62,564) -----	----- (16,718) -----
Cash flows from financing activities:		
Net borrowings under revolving credit agreements	9,900	15,776
Net borrowings under (repayments of) long-term obligations	17	(4,015)
Net proceeds from issuances of common stock	85,749	34,207
Common stock cash dividends	(1,095)	(765)
Other	(207)	(64)
Net cash provided by financing activities	----- 94,364 -----	----- 45,139 -----
Net increase in cash and cash equivalents	1,103	18,438
Cash and cash equivalents at beginning of period	5,020	3,751
Cash and cash equivalents at end of period	----- \$ 6,123 =====	----- \$ 22,189 =====

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 1997

1. The condensed consolidated balance sheet as of December 31, 1996, which has been derived from audited financial statements, and the unaudited interim condensed consolidated financial statements, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments necessary for a fair presentation have been included in the condensed consolidated financial statements herein.
2. The results of operations for the quarter and six month period ended June 30, 1997 are not necessarily indicative of the results for the year ending December 31, 1997. The sale of the Company's products and services is seasonal with revenues generally increasing during the months of May through August.
3. At June 30, 1997 and December 31, 1996, inventories consist of (in thousands):

	JUNE 30, 1997	DECEMBER 31, 1996
	-----	-----
Raw materials	\$ 4,138	\$ 4,208
Work in process	2,714	1,502
Finished goods	143,263	81,927
	-----	-----
	\$150,115	\$87,637
	=====	=====

4. Effective May 31, 1997, the Company completed the acquisition of the common stock of Weathertrol Supply Company, a \$30 million wholesale distributor of residential air conditioning and heating products, with fifteen branch locations serving markets in Texas, Louisiana, Arkansas and Oklahoma.

Cash consideration paid and debt assumed by the Company totaled approximately \$11.0 million and is subject to adjustment upon the completion of an audit of the assets purchased and the liabilities assumed. This acquisition was accounted for under the purchase method of accounting and, accordingly, the results of its operations have been included in the condensed consolidated statement of income beginning on the date of acquisition. The excess of the aggregate purchase price over the net assets acquired of approximately \$3.0 million is being amortized on a straight-line basis over 40 years. In connection with this acquisition, the Company assumed other liabilities of approximately \$4.4 million.
5. In July 1997, the Company completed the acquisition of the common stock of Air Systems Distributors, Inc., a \$9 million wholesale distributor of residential and commercial air conditioning equipment and related products in Florida.
6. The Company has two pending acquisitions for which it has executed letters of intent. The Companies to be acquired are wholesale distributors of air conditioning, heating and refrigeration equipment and related parts and supplies and had aggregate annual revenues of approximately \$170 million for their most recently completed fiscal years. Completion of these transactions are subject to the execution of definitive agreements and other conditions.

7. On August 8, 1997, the Company executed an amended and restated bank-syndicated credit agreement which provides for borrowings of up to \$260 million, expiring on August 8, 2002. The unsecured agreement will be used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions. Borrowings under the revolving credit agreement bear interest at primarily LIBOR-based rates plus a spread that is dependent upon the Company's financial performance (30-day LIBOR plus .375% at June 30, 1997). The revolving credit agreement contains financial covenants with respect to the Company's consolidated net worth, interest and debt coverage ratios, and limits capital expenditures and dividends in addition to other restrictions.
8. The Company has evaluated the pro forma effects of the recent accounting pronouncement, SFAS No. 128, "Earnings Per Share", which will be effective for fiscal years ending after December 15, 1997. Based on this evaluation, the pro forma effects are not material to the Company's consolidated financial position, liquidity or results of operations.

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

RESULTS OF OPERATIONS

The following table presents certain items of the Company's condensed consolidated financial statements for the quarter and six months ended June 30, 1997 and 1996 expressed as a percentage of total revenues:

	QUARTER ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	1997	1996	1997	1996
	----	----	----	----
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales and direct service expenses	(77.9)	(77.9)	(77.4)	(77.7)
	-----	-----	-----	-----
Gross profit	22.1	22.1	22.6	22.3
Selling, general and administrative expenses	(16.1)	(15.6)	(17.4)	(16.7)
	-----	-----	-----	-----
Operating income	6.0	6.5	5.2	5.6
Other income, net	0.1	0.3	0.2	0.2
Interest expense	(0.4)	(0.9)	(0.5)	(1.1)
Income taxes	(2.2)	(2.3)	(1.9)	(1.8)
Minority interests	-	-	-	(.1)
	-----	-----	-----	-----
Net income	3.5%	3.6%	3.0 %	2.8%
	=====	=====	=====	=====

The above table and following narrative includes the results of operations of companies acquired during 1997 and 1996 as follows: Three States Supply Company, Inc., acquired in April 1996; Serviceman Supplies, Inc., acquired in October 1996; Coastal Supply Company, Inc., acquired in December 1996; Coastline Distribution, Inc. and four branch operations, acquired in January 1997; Comfort Products Distributing, Inc. and Central Plains Distributing, Inc., acquired in March 1997; and Weathertrol Supply Company, acquired in June 1997 (collectively, the "acquisitions"). These 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.

QUARTER ENDED JUNE 30, 1997 VS. QUARTER ENDED JUNE 30, 1996

Revenues for the three months ended June 30, 1997 increased \$63.9 million, or 53.9%, compared to the same period in 1996. In the distribution operations, revenues increased \$60.8 million, or 58.6%. Excluding the effect of acquisitions, revenues for the distribution operations increased \$4.0 million, or 3.9%. Such increase was primarily due to sales generated from expanded product lines of parts and supplies.

Gross profit for the three months ended June 30, 1997 increased \$14.1 million, or 53.8%, compared to the same period in 1996. Excluding the effect of acquisitions, gross profit increased \$1.6 million, or 6.2%, primarily as a result of the aforementioned revenue increases. Gross profit margin in the second quarter of 1997 was unchanged at 22.1% as compared to the same period in 1996. Excluding the effect of acquisitions, gross profit margin increased to 22.3% in 1997 from 22.1% in 1996. This increase was primarily due to the effect of new vendor procurement programs benefiting the Company with lower purchase costs for certain parts and supplies in 1997.

Selling, general and administrative expenses for the three months ended June 30, 1997 increased \$10.9 million, or 58.8%, compared to the same period in 1996. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$1.9 million, or 10.2%, primarily due to increased revenues and higher costs related to new branches and the expansion of existing branches. Selling, general and administrative costs as a percent of revenues increased to 16.1% in 1997 from 15.6% in 1996, primarily due to higher cost structures of acquired companies and startup costs related to the opening of new distribution branches. Excluding the effect of acquisitions, selling, general and administrative expenses increased to 16.3% in 1997 from 15.6% in 1996, primarily due to branch expansions and the relatively higher cost structures of new distribution branches.

Interest expense for the second quarter of 1997 decreased \$300,000, or 27.6%, compared to the same period in 1996, primarily due to lower average borrowings.

The effective tax rate for the three months ended June 30, 1997 was 39.0% compared to 38.7% for the same period in 1996. The increase was due to a higher effective Federal income tax rate.

SIX MONTHS ENDED JUNE 30, 1997 VS. SIX MONTHS ENDED JUNE 30, 1996

Revenues for the six months ended June 30, 1997 increased \$97.4 million, or 49.6%, compared to the same period in 1996. In the distribution operations, revenues increased \$91.9 million, or 54.4%. Excluding the effect of acquisitions, revenues for the distribution operations increased \$5.8 million, or 3.4%. This increase was primarily due to sales generated from expanded product lines of parts and supplies.

Gross profit for the six months ended June 30, 1997 increased \$22.5 million, or 51.3%, compared to the same period in 1996. Excluding the effect of acquisitions, gross profit increased \$2.9 million, or 6.6%, primarily as a result of the aforementioned revenue increases. Gross profit margin for the six month period increased to 22.6% in 1997 from 22.3% in 1996 and, excluding the effect of acquisitions, increased to 22.7% in 1997 from 22.3% in 1996. This increase was primarily due to the effect of new vendor procurement programs benefiting the Company with lower purchase costs for certain parts and supplies in 1997.

Selling, general and administrative expenses for the six months ended June 30, 1997 increased \$18.2 million, or 55.6%, compared to the same period in 1996. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$3.2 million, or 9.6%, primarily due to increased revenues and higher costs related to new branches and the expansion of existing branches. Selling, general and administrative expenses as a percent of revenues increased to 17.4% in 1997 from 16.7% in 1996, primarily due to higher cost structures of acquired companies and startup costs related to the opening of new distribution branches. Excluding the effect of acquisitions, selling, general and administrative expenses as a percent of revenues increased to 17.5% in 1997 from 16.7% in 1996, primarily due to branch expansions and the relatively higher cost structures of new distribution branches.

Interest expense for the six months ended June 30, 1997 decreased \$567,000, or 26.6%, compared to the same period in 1996, primarily due to lower average borrowings.

Minority interest expense for the six months ended June 30, 1997 decreased \$116,000 compared to the same period in 1996. This decrease was due to the Company's acquisition of the minority interests in three of its distribution subsidiaries in March 1996. Following the acquisition, all of the Company's subsidiaries were wholly owned.

The effective tax rate for the six months ended June 30, 1997 was 39.0% compared to 38.5% for the same period in 1996. The increase was due to a greater percentage of income being taxed at a higher effective Federal income tax rate.

LIQUIDITY AND CAPITAL RESOURCES

On August 8, 1997, the Company executed an amended and restated bank-syndicated credit agreement which provides for borrowings of up to \$260 million, expiring on August 8, 2002. The unsecured agreement will be used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions. Borrowings under the revolving credit agreement, which totaled \$57.9 million at June 30, 1997, bear interest at primarily LIBOR-based rates plus a spread that is dependent upon the Company's financial performance (LIBOR plus .375% at June 30, 1997). The revolving credit agreement contains financial covenants with respect to the Company's consolidated net worth, interest and debt coverage ratios, and limits capital expenditures and dividends in addition to other restrictions.

The Company has two pending acquisitions for which it has executed letters of intent. The companies to be acquired are wholesale distributors of air conditioning, heating and refrigeration equipment and related parts and supplies and had aggregate annual revenues of approximately \$170 million for their most recently completed fiscal years. Completion of these transactions are subject to the execution of definitive agreements and other conditions.

The Company has adequate availability of capital from operations and its revolving credit agreement to fund present operations and anticipated growth, including expansion in the Company's 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.

Working capital increased to \$214.3 million at June 30, 1997 from \$130.0 million at December 31, 1996. This increase is primarily due to the receipt of net proceeds of approximately \$85.2 million from the sale of 3,000,000 shares of the Company's Common Stock in February 1997. In March 1997, the Company used the net proceeds to pay down its revolving credit agreement and to fund the acquisitions of Comfort Products and Central Plains.

Cash and cash equivalents increased \$1.1 million during the six month period ended June 30, 1997. Principal sources of cash were net proceeds from the issuance of common stock, borrowings under the revolving credit agreement and profitable operations. The principal uses of cash were to fund working capital needs and finance business acquisitions. Inventory purchases are substantially funded by borrowings under the revolving credit agreement. The increase in inventory in 1997 was higher than 1996 primarily due to higher levels of inventory carried by the distribution operations necessary to meet increased demand, stocking requirements of new branches, and expanded product lines.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

There have been no significant changes from the information reported in the Annual Report on Form 10-K for the period ended December 31, 1996, filed on March 31, 1997.

ITEM 2. CHANGES IN THE RIGHTS OF THE COMPANY'S SECURITY HOLDERS

None

ITEM 3. DEFAULTS BY THE COMPANY ON ITS SENIOR SECURITIES

None

ITEM 4. RESULTS OF VOTES OF SECURITIES HOLDERS

(a) The Company's 1997 Annual Meeting of Shareholders was held on May 30, 1997.

(b) Proxies were solicited by the Company's management pursuant to Regulation 14 under the Securities Exchange Act of 1934. There was no solicitation in opposition to the management's nominees as listed in the proxy statement. The following nominees were elected as indicated in the proxy statement pursuant to the vote of the shareholders as follows:

Common Stock -----	For ---	Withheld -----
Mr. Alan H. Potamkin	12,707,604	86,046
Class B Common Stock -----		
Mr. Roberto Motta	1,787,872	11,548
Mr. Cesar L. Alvarez	1,787,872	11,548

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

- (1) To ratify the action of the Board of Directors amending and restating the Company's 1991 Stock Option Plan;
- (2) To ratify the action of the Board of Directors adopting the 1996 Qualified Employee Stock Purchase Plan; and
- (3) To ratify the reappointment of Arthur Andersen LLP as the Company's independent certified public accountants for the year ended December 31, 1997.

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

PROPOSAL 1 -----	
For	27,689,524
Against	924,159
Abstained	85,912

ITEM 4. RESULTS OF VOTES OF SECURITIES HOLDERS (CONTINUED)

PROPOSAL 2

For	28,356,420
Against	261,240
Abstained	81,961

PROPOSAL 3

For	30,719,515
Against	10,584
Abstained	57,750

As of April 4, 1997, the record date for the Annual Meeting of Shareholders, the total number of shares of the Company's Common Stock, \$.50 par value, and Class B Common Stock, \$.50 par value, outstanding was 15,010,821 and 2,190,697, respectively, representing 36,917,791 combined votes.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.18 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.
- 11. Computation of Earnings Per Share for the Quarter and Six Months Ended June 30, 1997 and 1996.
- 27. Financial Data Schedule (for SEC use only).

(b) Reports on Form 8-K

SIGNATURES

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

WATSCO, INC.

(Registrant)

By: /S/ BARRY S. LOGAN

Barry S. Logan
Vice President and Secretary
(Chief Financial Officer)

August 13, 1997

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EXHIBIT

- - - - -

- 10.18 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.
- 11. Computation of Earnings Per Share for the Quarter and Six Months Ended June 30, 1997 and 1996.
- 27. Financial Data Schedule (for SEC use only).

AMENDED AND RESTATED
REVOLVING CREDIT AND REIMBURSEMENT AGREEMENT

by and among

WATSCO, INC.

as Borrower,

NATIONSBANK, NATIONAL ASSOCIATION,

as Agent and as Lender

and

BARNETT BANK, N.A.,

FIRST UNION NATIONAL BANK,

SUNTRUST BANK,

as Co-Agents

and

THE LENDERS PARTY HERETO FROM TIME TO TIME

August 8, 1997

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AMENDED AND RESTATED
REVOLVING CREDIT AND REIMBURSEMENT AGREEMENT

THIS AMENDED AND RESTATED REVOLVING CREDIT AND REIMBURSEMENT AGREEMENT, dated as of August 8, 1997 (the "Agreement"), is made by and among WATSCO, INC., a Florida corporation having its principal place of business in Coconut Grove, Florida (the "Borrower"), NATIONSBANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States, in its capacity as a Lender ("NationsBank"), and each other financial institution executing and delivering a signature page hereto and each other financial institution which may hereafter execute and deliver an instrument of assignment with respect to this Agreement pursuant to SECTION 11.1 (hereinafter such financial institutions may be referred to individually as a "Lender" or collectively as the "Lenders"), and NATIONSBANK, NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States, in its capacity as agent for the Lenders (in such capacity, and together with any successor agent appointed in accordance with the terms of SECTION 10.7, the "Agent");

W I T N E S S E T H:

WHEREAS, the Borrower, NationsBank, National Association, as agent and certain lenders (the "Existing Lenders") have entered into a Revolving Credit and Reimbursement Agreement dated September 25, 1996 (the "Existing Agreement") pursuant to which the Existing Lenders have made available to the Borrower a revolving credit facility of up to \$130,000,000 and issued letters of credit for the benefit of the Borrower; and

WHEREAS, the Borrower has requested that the amount of the revolving credit facility be increased and that the Existing Agreement be amended and restated in its entirety; and

WHEREAS, the Lenders are willing to amend and restate the Existing Agreement and to make available to the Borrower a revolving credit facility of up to \$260,000,000, including a sublimit for issuance of standby letters of credit in an amount of up to \$5,000,000 and a swing line facility in an amount of up to \$15,000,000, the proceeds of which are to be used (i) for seasonal working capital needs and (ii) for general corporate purposes, including the making of acquisitions permitted hereunder; and

WHEREAS, the Lenders are willing to make such revolving credit facility available to the Borrower upon the terms and conditions set forth herein;

NOW, THEREFORE, the Borrower, the Lenders and the Agent hereby agree as follows:

ARTICLE I

DEFINITIONS AND TERMS

I.1. AMENDMENT AND RESTATEMENT. The Borrower, the Agent and the Lenders hereby agree that upon the effectiveness of this Agreement, the terms and provisions of the Existing Agreement shall be and hereby are amended and restated in their entirety by the terms and conditions of this Agreement and the terms and provisions of the Existing Agreement, except as otherwise provided herein, shall be superseded by this Agreement.

Notwithstanding the amendment and restatement of the Existing Agreement by this Agreement, the Borrower shall continue to be liable to the Agent and the Existing Lenders with respect to (and to the extent of) agreements on the part of the Borrower under the Existing Agreement to indemnify and hold harmless the Agent and the Existing Lenders from and against all claims, demands, liabilities, damages, losses, costs, charges and expenses to which the Agent and the Existing Lenders may be subject arising in connection with the Existing Agreement. This Agreement is given as a substitution of, and not as a payment of, the obligations of Borrower under the Existing Agreement and is not intended to constitute a novation of the Existing Agreement. Except as otherwise selected by the Borrower by delivery of a Borrowing Notice or Interest Rate Selection Notice prior to the Closing Date in accordance with the terms hereof, upon the effectiveness of this Agreement all amounts outstanding and owing by Borrower under the Existing Agreement as of the Closing Date, as determined by the Lenders, shall constitute Advances hereunder accruing interest with respect to the Base Rate Loans under the Existing Agreement, at the Base Rate hereunder. The parties hereto agree that the Interest Periods for all Eurodollar Loans outstanding under the Existing Agreement on the Closing Date shall be terminated, the Borrower shall make any payments required under SECTION 4.5 hereof to the Lenders. The Borrower shall furnish to the Agent Interest Rate Selection Notices for existing Loans and Borrowing Notices for additional Loans as may be required in connection with the allocation of Loans among Lenders in accordance with their Applicable Commitment Percentages. Except as otherwise provided for by the Borrower by delivery to NationsBank of an Application and Agreement for Letters of Credit prior to the Closing Date in accordance with the terms hereof, upon the effectiveness of this Agreement, all Letters of Credit issued for the account of the Borrower under the Existing Agreement as of the Closing Date shall constitute Letters of Credit hereunder.

I.2. DEFINITIONS. For the purposes of this Agreement, in addition to the definitions set forth above, the following terms shall have the respective meanings set forth below:

"Acquisition" means the acquisition of (i) a controlling equity interest in another Person (including the purchase of an option, warrant or convertible or similar type security to acquire such a controlling interest at the time it becomes exercisable by the holder thereof), whether by purchase of such equity interest or upon exercise of an option or warrant for, or conversion of securities into, such equity interest, or (ii) assets of another Person

which constitute all or substantially all of the assets of such Person or of a line or lines of business conducted by such Person.

"Advance" means a borrowing under (i) the Revolving Credit Facility consisting of a Base Rate Loan or a Eurodollar Rate Loan or (ii) the Swing Line consisting of Base Rate Loans.

"Affiliate" means any Person (i) which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with the Borrower; or (ii) which beneficially owns or holds 10% or more of the aggregate voting rights for all of Borrower's classes of outstanding Voting Stock (or in the case of a Person which is not a corporation, 10% or more of the aggregate voting rights of such Person) of the Borrower; or 10% or more of any class of the outstanding voting stock (or in the case of a Person which is not a corporation, 10% or more of the aggregate voting rights of such Person) of which is beneficially owned or held by the Borrower. The term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting stock, by contract or otherwise.

"Applicable Commitment Percentage" means, with respect to each Lender at any time, a fraction, the numerator of which shall be such Lender's Revolving Credit Commitment and the denominator of which shall be the Total Revolving Credit Commitment, which Applicable Commitment Percentage for each Lender as of the Closing Date is as set forth in EXHIBIT A; PROVIDED that the Applicable Commitment Percentage of each Lender shall be increased or decreased to reflect any assignments to or by such Lender effected in accordance with SECTION 11.1.

"Applicable Lending Office" means, for each Lender and for each Type of Loan, the "Lending Office" of such Lender or of an affiliate of such Lender) designated for such Type of Loan on the signature pages hereof or such other office of such Lender (or an affiliate of such Lender) as such Lender may from time to time specify to the Agent and the Borrower by written notice in accordance with the terms hereof as the office by which its Loans of such Type are to be made and maintained.

"Applicable Margin" means that percent per annum set forth below, which shall be based upon the Consolidated Debt Coverage Ratio for the Four-Quarter Period most recently ended as specified below:

	CONSOLIDATED DEBT COVERAGE RATIO -----	BASE RATE ----	APPLICABLE MARGIN -----	EURODOLLAR RATE -----
(a)	Greater than or equal to 3.50 to 1.0	.0%		.90%
(b)	Greater than or equal to 3.0 to 1.0 and less than 3.50 to 1.0	.0%		.70%
(c)	Greater than or equal to 2.50 to 1.0 and less than 3.0 to 1.0	0%		.60%
(d)	Greater than or equal to 2.0 to 1.0 and less than 2.50 to 1.0	0%		.50%
(e)	Less than 2.0 to 1.0	0%		.375%

The Applicable Margin shall be established at the end of each fiscal quarter of the Borrower (each, a "Determination Date"). Any change in the Applicable Margin following each Determination Date shall be determined based upon the computations set forth in the certificate furnished to the Agent pursuant to SECTION 7.1(A)(II) and SECTION 7.1(B)(II), subject to review and approval of such computations by the Agent, and shall be effective commencing on the Business Day following the date such certificate is received (or, if earlier, the date such certificate was required to be delivered) until the date following the date on which a new certificate is delivered or is required to be delivered, whichever shall first occur; PROVIDED however, if the Borrower shall fail to deliver any such certificate within the time period required by SECTION 7.1, then the Applicable Margin shall be .0% for Base Rate Loans and .90% for Eurodollar Rate Loans until the appropriate certificate is so delivered. From the Closing Date to the first Determination Date, the Applicable Margin shall be 0% for Base Rate Loans and .375 for Eurodollar Rate Loans. Notwithstanding the foregoing if at any time the Borrower's long term senior unsecured, unenhanced debt shall be rated "BB" or better by either S&P or "Ba2" or better by Moody's (collectively, the "Threshold Ratings"), then the Borrower may elect (which election may be reserved at any time at the option of the Borrower), by notice to the Agent and the Lenders, effective upon receipt (but subject to confirmation) by the Agent, to have the Applicable Margin determined as set forth below based on such ratings for the period from the date of receipt of such notice by the Agent through the date on which either of the Threshold Ratings are no longer in effect with respect to such debt of the Borrower:

BASE RATE	APPLICABLE MARGIN EURODOLLAR RATE	S&P	MOODY'S
0%	.75%	BB	Ba2
0%	.65%	BB+	Ba1
0%	.45%	BBB-	Baa3
0%	.35%	BBB	Baa2
0%	.30%	BBB+ or higher	Baa1 or higher

If, during any period when the Applicable Margin is determined by reference to ratings by either S&P or Moody's of debt of the Borrower as provided above, the respective ratings of each of either S&P or Moody's set forth above shall provide different levels of Applicable Margin, then, provided that both ratings shall constitute Threshold Ratings, the higher rating shall apply for purposes of determining the Applicable Margin.

"Applicable Unused Fee" means that percent per annum set forth below, which shall be based upon the Consolidated Debt Coverage Ratio for the Four-Quarter Period most recently ended as specified below:

	CONSOLIDATED DEBT COVERAGE RATIO	APPLICABLE UNUSED FEE
(a)	Greater than or equal to 3.50 to 1.0	.25%
(b)	Greater than or equal to 3.0 to 1.0 and less than 3.50 to 1.0	.225%
(c)	Greater than or equal to 2.50 to 1.0 and less than 3.0 to 1.0	.20%
(d)	Greater than or equal to 2.0 to 1.0 and less than 2.50 to 1.0	.15%
(e)	Less than 2.0 to 1.0	.125%

The Applicable Unused Fee shall be established at the end of each fiscal quarter of the Borrower (the "Determination Date"). Any change in the Applicable Unused Fee following each Determination Date shall be determined based upon the computations set forth in the

certificate furnished to the Agent pursuant to SECTION 7.1(A)(II) and SECTION 7.1(B)(II), subject to review and approval of such computations by the Agent and shall be effective commencing on the Business Day following the date such certificate is received (or, if earlier, the date such certificate was required to be delivered) until the date following the date on which a new certificate is delivered or is required to be delivered, whichever shall first occur; PROVIDED however, if the Borrower shall fail to deliver any such certificate within the time period required by SECTION 7.1, then the Applicable Unused Fee shall be .25% until the appropriate certificate is so delivered. From the Closing Date to the first Determination Date, the Applicable Unused Fee shall be .125%. Notwithstanding the foregoing, if at any time the Borrower's long term senior unsecured, unenhanced debt shall be rated "BB" or better by either S&P or "Ba2" or better by Moody's (collectively, the "Threshold Ratings"), then the Borrower may elect (which election may be reversed at any time at the option of the Borrower), by notice to the Agent and the Lenders, effective upon receipt (but subject to confirmation) by the Agent, to have the Applicable Unused Fee determined as set forth below based on such ratings for the period from the date of receipt of such notice by the Agent through the date on which either of the Threshold Ratings are no longer in effect with respect to such debt of the Borrower:

APPLICABLE UNUSED FEE -----	S&P ---	MOODY'S -----
.25%	BB	Ba2
.225%	BB+	Ba1
.15%	BBB-	Baa3
.125%	BBB	Baa2
.10%	BBB+ or higher	Baa1 or higher

If, during any period when the Applicable Unused Fee is determined by reference to ratings by either S&P or Moody's of debt of the Borrower as provided above, the respective ratings of each of either S&P or Moody's set forth above shall provide different levels of Applicable Unused Fee, then, provided that both ratings shall constitute Threshold Ratings, the higher rating (i.e., the lower fee) shall apply for purposes of determining the Applicable Unused Fee.

"Applications and Agreements for Letters of Credit" means, collectively, the Applications and Agreements for Letters of Credit, or similar documentation, executed by the Borrower from time to time and delivered to the Issuing Bank to support the issuance of Letters of Credit.

"Assignment and Acceptance" shall mean an Assignment and Acceptance in the form of EXHIBIT B (with blanks appropriately filled in) delivered to the Agent in connection with an assignment of a Lender's interest under this Agreement pursuant to SECTION 11.1.

"Authorized Representative" means any of the President, Chief Executive Officer, any Vice President or Treasurer of the Borrower or, with respect to financial matters, the

chief financial officer of the Borrower, or any other Person expressly designated by the Board of Directors of the Borrower (or the appropriate committee thereof) as an Authorized Representative of the Borrower, as set forth from time to time in a certificate in the form of EXHIBIT C.

"Base Rate" means the per annum rate of interest equal to the sum of the greater of (i) the Prime Rate or (ii) the Federal Funds Effective Rate PLUS one-half of one percent (1/2%). Any change in the Base Rate resulting from a change in the Federal Funds Effective Rate shall become effective as of 12:01 A.M. of the Business Day on which each such change occurs. The Base Rate is a reference rate used by Agent in determining interest rates on certain loans and is not intended to be the lowest rate of interest charged on any extension of credit to any debtor.

"Base Rate Loan" means a Loan for which the rate of interest is determined by reference to the Base Rate.

"Base Rate Refunding Loan" means a Base Rate Loan or Swing Line Loan made either to (i) satisfy Reimbursement Obligations arising from a drawing under a Letter of Credit or (ii) pay NationsBank in respect of Swing Line Outstandings.

"Board" means the Board of Governors of the Federal Reserve System (or any successor body).

"Borrower's Account" means a demand deposit account number XXXXXXXXXX or any successor account with the Agent, which may be maintained at one or more offices of the Agent or an agent of the Agent.

"Borrowing Notice" means the notice delivered by an Authorized Representative in connection with an Advance under the Revolving Credit Facility or Swing Line in the form of EXHIBIT D.

"Business Day" means, (i) with respect to any Base Rate Loan, any day which is not a Saturday, Sunday or a day on which banks in the States of New York, Florida and North Carolina are authorized or obligated by law, executive order or governmental decree to be closed and, (ii) with respect to any Eurodollar Rate Loan, any day which is a Business Day, as described above, and on which the relevant international financial markets are open for the transaction of business contemplated by this Agreement in London, England, New York, New York and Charlotte, North Carolina.

"Capital Expenditures" means, with respect to the Borrower and its Subsidiaries, for any period the SUM of (without duplication) (i) all expenditures (whether paid in cash or accrued as liabilities) by the Borrower or any Subsidiary during such period for items that would be classified as "property, plant or equipment" or comparable items on the consolidated balance sheet of the Borrower and its Subsidiaries, including without limitation

all transactional costs incurred in connection with such expenditures provided the same have been capitalized, excluding, however, the amount of any Capital Expenditures paid for with proceeds of casualty insurance as evidenced in writing and submitted to the Agent together with any compliance certificate delivered pursuant to SECTION 7.1(A) or (B), and (ii) with respect to any Capital Lease entered into by the Borrower or its Subsidiaries during such period, the present value of the lease payments due under such Capital Lease over the term of such Capital Lease applying a discount rate equal to the interest rate provided in such lease (or in the absence of a stated interest rate, that rate used in the preparation of the financial statements described in SECTION 7.1(A)), all the foregoing in accordance with GAAP applied on a Consistent Basis.

"Capital Leases" means all leases which have been or should be capitalized in accordance with GAAP as in effect from time to time including Statement No. 13 of the Financial Accounting Standards Board and any successor thereof.

"Change of Control" means, at any time:

(A) With respect to the Borrower,

(i) any "person" or "group" (each as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) other than Albert Nahmad and Alna Capital Associates (each an "Existing Control Group") either (A) becomes the "beneficial owner" (as defined in Rule 13d-3 of the Exchange Act), directly or indirectly, of Voting Stock of the Borrower (or securities convertible into or exchangeable for such Voting Stock) representing 25% or more of the combined voting power of all Voting Stock of the Borrower (on a fully diluted basis) or (B) otherwise has the ability, directly or indirectly, to elect a majority of the board of directors of the Borrower (PROVIDED that if an event described in this clause (i) shall occur solely by reason of the death of one or more members of the Existing Control Group, then a "Change of Control" shall not be deemed to have occurred so long as the Voting Stock of the decedent is owned of record by the estate or immediately family of such decedent);

(ii) during any period of up to 24 consecutive months, commencing on the Closing Date, individuals who at the beginning of such 24-month period were directors of the Borrower shall cease for any reason (other than the death, disability or retirement of a director or of an officer of the Borrower that is serving as a director at such time so long as another officer of the Borrower replaces such Person as a director) to constitute a majority of the board of directors of the Borrower; or

(iii) any Person or two or more Persons acting in concert other than the Existing Control Group shall have acquired by contract or otherwise, or shall have consummated a contract or arrangement that results in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence on the management or policies of the Borrower; or

(B) with respect to any Major Subsidiary,

(i) the Borrower shall cease to own, directly or indirectly, at least 100% of the Voting Stock of each currently existing Major Subsidiary; or

(ii) any Person or two or more Persons acting in concert other than the Borrower shall have acquired by contract or otherwise, or shall have consummated a contract or arrangement that results in its or their acquisition of the power to exercise, directly or indirectly, a controlling influence on the management or policies of such Subsidiary.

"Closing Date" means the date as of which this Agreement is executed by the Borrower, the Lenders and the Agent and on which the conditions set forth in SECTION 5.1 have been satisfied.

"Code" means the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder.

"Comfort Supply" means Comfort Supply, Inc., a Delaware corporation and a Subsidiary of the Borrower, and its successors.

"Consistent Basis" in reference to the application of GAAP means the accounting principles observed in the period referred to are comparable in all material respects to those applied in the preparation of the audited financial statements of the Borrower referred to in SECTION 6.6(A).

"Consolidated Debt Coverage Ratio" means, as of the date of computation thereof, the ratio of (i) the sum of (without duplication) Consolidated Indebtedness (determined as at such date) to (ii) Consolidated EBITDA (for the Four-Quarter Period ending on (or most recently ended prior to) such date).

"Consolidated EBIT" means, with respect to the Borrower and its Subsidiaries for any Four-Quarter Period ending on the date of computation thereof, the SUM of, without duplication, (i) Consolidated Net Income, (ii) Consolidated Interest Expense, and (iii) taxes on income, all determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis; PROVIDED, however, that with respect to an Acquisition that is accounted for as a "purchase", for the four Four-Quarter Periods ending next following the date of such Acquisition, Consolidated EBIT shall include the results of operations of the Person or assets so acquired for the appropriate periods, which amounts shall be determined on a historical pro forma basis as if such Acquisition had been consummated as a "pooling of interests".

"Consolidated EBITDA" means, with respect to the Borrower and its Subsidiaries for any Four-Quarter Period ending on the date of computation thereof, the SUM of, without

duplication, (i) Consolidated Net Income, (ii) Consolidated Interest Expense, (iii) taxes on income, (iv) amortization, and (v) depreciation, all determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis; PROVIDED, however, that with respect to an Acquisition that is accounted for as a "purchase", for the four Four-Quarter Periods ending next following the date of such Acquisition, Consolidated EBITDA shall include the results of operations of the Person or assets so acquired, which amounts shall be determined on a historical pro forma basis as if such Acquisition had been consummated as a "pooling of interests".

"Consolidated Indebtedness" means all Indebtedness for Money Borrowed of the Borrower and its Subsidiaries, all determined on a consolidated basis.

"Consolidated Interest Coverage Ratio" means, with respect to the Borrower and its Subsidiaries for any Four-Quarter Period ending on the date of computation thereof, the ratio of (i) Consolidated EBIT for such period, to (ii) Consolidated Interest Expense for such period; PROVIDED, however, that Consolidated Interest Expense shall be determined in the same manner provided in the definition of "Consolidated EBIT" for any Acquisition that is accounted for as a "purchase".

"Consolidated Interest Expense" means, with respect to any period of computation thereof, the gross interest expense of the Borrower and its Subsidiaries, including without limitation (i) the current amortized portion of debt discounts to the extent included in gross interest expense, (ii) the current amortized portion of all fees (including fees payable in respect of any Swap Agreement) payable in connection with the incurrence of Indebtedness to the extent included in gross interest expense and (iii) the portion of any payments made in connection with Capital Leases which is accounted for in accordance with GAAP as interest expense, all determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis.

"Consolidated Net Income" means, for any period of computation thereof, the gross revenues from operations of the Borrower and its Subsidiaries (including payments received by the Borrower and its Subsidiaries of (i) interest income, and (ii) dividends and distributions made in the ordinary course of their businesses by Persons in which investment is permitted pursuant to this Agreement and not related to an extraordinary event), less all operating and non-operating expenses of the Borrower and its Subsidiaries including taxes on income, all determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis; but excluding (for all purposes other than compliance with SECTION 7.1(A) hereof) as income: (i) net gains on the sale, conversion or other disposition of capital assets, (ii) net gains on the acquisition, retirement, sale or other disposition of capital stock and other securities of the Borrower or its Subsidiaries, (iii) net gains on the collection of proceeds of life insurance policies, (iv) any write-up of any asset, and (v) any other net gain or credit of an extraordinary nature as determined in accordance with GAAP applied on a Consistent Basis.

"Consolidated Net Worth" means, as of any date on which the amount thereof is to be determined, Consolidated Shareholders' Equity minus (without duplication of deductions in respect of items already deducted in arriving at surplus and retained earnings) all reserves (other than contingency reserves not allocated to any particular purpose), including without limitation reserves for depreciation, depletion, amortization, obsolescence, deferred income taxes, insurance and inventory valuation, all as determined on a consolidated basis in accordance with GAAP applied on a Consistent Basis.

"Consolidated Shareholders' Equity" means, as of any date on which the amount thereof is to be determined, the sum of the following in respect of the Borrower and its Subsidiaries (determined on a consolidated basis and excluding any upward adjustment after the Closing Date due to revaluation of assets): (i) the amount of issued and outstanding share capital, plus (ii) the amount of additional paid-in capital and retained earnings (or, in the case of a deficit, minus the amount of such deficit), plus (iii) the amount of any foreign currency translation adjustment (if positive, or, if negative, minus the amount of such translation adjustment), minus (iv) the amount of any treasury stock, all as determined in accordance with GAAP applied on a Consistent Basis.

"Consolidated Total Capitalization" means, as of any date on which the amount thereof is to be determined, the sum of Consolidated Indebtedness plus Consolidated Shareholders' Equity.

"Contingent Obligation" of any Person means all contingent liabilities required (or which, upon the creation or incurring thereof, would be required) to be included in the financial statements (including footnotes) of such Person in accordance with GAAP applied on a Consistent Basis, including Statement No. 5 of the Financial Accounting Standards Board, all Rate Hedging Obligations and any obligation of such Person guaranteeing or in effect guaranteeing any Indebtedness, dividend or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, including obligations of such Person however incurred:

(1) to purchase such Indebtedness or other obligation or any property or assets constituting security therefor;

(2) to advance or supply funds in any manner (i) for the purchase or payment of such Indebtedness or other obligation, or (ii) to maintain a minimum working capital, net worth or other balance sheet condition or any income statement condition of the primary obligor;

(3) to grant or convey any lien, security interest, pledge, charge or other encumbrance on any property or assets of such Person to secure payment of such Indebtedness or other obligation;

(4) to lease property or to purchase securities or other property or services primarily for the purpose of assuring the owner or holder of such Indebtedness or obligation of the ability of the primary obligor to make payment of such Indebtedness or other obligation; or

(5) otherwise to assure the owner of the Indebtedness or such obligation of the primary obligor against loss in respect thereof.

"Continue", "Continuation", and "Continued" shall refer to the continuation pursuant to SECTION 2.8 hereof of a Eurodollar Rate Loan of one Type as a Eurodollar Rate Loan of the same Type from one Interest Period to the next Interest Period.

"Convert", "Conversion", and "Converted" shall refer to a conversion pursuant to SECTION 2.8 or ARTICLE IV of one Type of Loan into another Type of Loan.

"Cost of Acquisition" means, with respect to any Acquisition, as at the date of entering into any agreement therefor, the SUM of the following (without duplication): (i) the value of the capital stock, warrants or options to acquire capital stock of Borrower or any Subsidiary to be transferred in connection therewith, (ii) the amount of any cash and fair market value of other property (excluding property described in clause (i) and the unpaid principal amount of any debt instrument) given as consideration, (iii) the amount (determined by using the face amount or the amount payable at maturity, whichever is greater) of any Indebtedness incurred, assumed or acquired by the Borrower or any Subsidiary in connection with such Acquisition, (iv) all additional purchase price amounts in the form of earnouts and other contingent obligations that should be recorded on the financial statements of the Borrower and its Subsidiaries in accordance with GAAP, (v) all amounts paid in respect of covenants not to compete, consulting agreements that should be recorded on financial statements of the Borrower and its Subsidiaries in accordance with GAAP, and other affiliated contracts in connection with such Acquisition, (vi) the aggregate fair market value of all other consideration given by the Borrower or any Subsidiary in connection with such Acquisition, and (vii) out of pocket transaction costs for the services and expenses of attorneys, accountants and other consultants incurred in effecting such transaction, and other similar transaction costs so incurred. For purposes of determining the Cost of Acquisition for any transaction, (A) the capital stock of the Borrower shall be valued (I) in the case of capital stock that is then designated as a national market system security by the National Association of Securities Dealers, Inc. ("NASDAQ") or is listed on a national securities exchange, the average of the last reported closing quotations for the ten previous Business Days prior to issuance (so long as the public announcement of Borrower's intent to consummate such Acquisition precedes such ten day period), and (II) with respect to shares that are not freely tradeable, as determined by the Board of Directors of the Borrower and, if requested by the Agent, determined to be a reasonable valuation by the independent public accountants referred to in SECTION 6.6(A), (B) the capital stock of any Subsidiary shall be valued as determined by the Board of Directors of such Subsidiary and, if requested by the Agent, determined to be a reasonable valuation by the Borrower's investment advisors, and

(C) with respect to any Acquisition accomplished pursuant to the exercise of options or warrants or the conversion of securities, the Cost of Acquisition shall include both the cost of acquiring such option, warrant or convertible security as well as the cost of exercise or conversion.

"Credit Party" means, collectively, the Borrower and each Guarantor.

"Default" means any event or condition which, with the giving or receipt of notice or lapse of time or both, would constitute an Event of Default as described in ARTICLE IX hereof.

"Default Rate" means (i) with respect to each Eurodollar Rate Loan, until the end of the Interest Period applicable thereto, a rate of two percent (2%) above the Eurodollar Rate applicable to such Loan, and thereafter at a rate of interest per annum which shall be two percent (2%) above the Base Rate, (ii) with respect to Base Rate Loans, at a rate of interest per annum which shall be two percent (2%) above the Base Rate and (iii) in any case, the maximum rate permitted by applicable law, if lower.

"Distribution Agreements" means, collectively, the following agreements between Rheem and the Borrower or a Subsidiary of the Borrower pertaining to the distribution of Rheem products, true and complete copies of which have been furnished to the Agent on or prior to the Closing Date: Gemaire Distributors, Inc. and Rheem dated December 30, 1988 as amended February 6, 1996, December 30, 1988 and January 4, 1991, Heating & Cooling Supply, Inc. and Rheem dated October 15, 1990 as amended February 6, 1996 and August 23, 1994, Comfort Supply, Inc. and Rheem dated May 25, 1993 as amended February 6, 1996, and Central Air Conditioning Distributors, Inc. and Rheem dated January 2, 1991, as the same may be amended, supplemented or modified from time to time.

"Dollars" and the symbol "\$" means dollars constituting legal tender for the payment of public and private debts in the United States of America.

"Dunhill" means Dunhill Personnel System, Inc., a Delaware corporation and a Subsidiary of the Borrower as of the Closing Date.

"Eligible Assignee" means (i) a Lender, (ii) an affiliate of a Lender, and (iii) any other Person approved by the Agent and, unless an Event of Default has occurred and is continuing at the time any assignment is effected in accordance with SECTION 11.1, the Borrower, such approval not to be unreasonably withheld or delayed by the Borrower and such approval to be deemed given by the Borrower if no objection is received by the assigning Lender and the Agent from the Borrower within two Business Days after notice of such proposed assignment has been provided by the assigning Lender to the Borrower; PROVIDED, HOWEVER, that neither the Borrower nor an affiliate of the Borrower shall qualify as an Eligible Assignee.

"Eligible Securities" means the following obligations and any other obligations previously approved in writing by the Agent:

(a) Government Securities;

(b) obligations of any corporation organized under the laws of any state of the United States of America or under the laws of any other nation, payable in the United States of America, expressed to mature not later than 92 days following the date of issuance thereof and rated in an investment grade rating category by either S&P or Moody's;

(c) interest bearing demand or time deposits issued by any Lender or certificates of deposit maturing within one year from the date of issuance thereof and issued by a bank or trust company organized under the laws of the United States or of any state thereof having capital surplus and undivided profits aggregating at least \$200,000,000 and being rated "A-3" or better by S&P or "A" or better by Moody's;

(d) Repurchase Agreements;

(e) Municipal Obligations;

(f) Pre-Refunded Municipal Obligations;

(g) shares of mutual funds which invest in obligations described in paragraphs (a) through (f) above, the shares of which mutual funds are at all times rated "AAA" by S&P;

(h) tax-exempt or taxable adjustable rate preferred stock issued by a Person having a rating of its long term unsecured debt of "A" or better by S&P or "A-3" or better by Moody's;

(i) asset-backed remarketed certificates of participation representing a fractional undivided interest in the assets of a trust, which certificates are rated at least "A-1" by S&P and "P-1" by Moody's; and

(j) subject to the limitation set forth in SECTION 6.11, equity or debt securities which are listed on a national securities exchange or freely traded in the over-the-counter market so long as the fair market value of such securities do not exceed in the aggregate \$5,000,000.

"Employee Benefit Plan" means any employee benefit plan within the meaning of Section 3(3) of ERISA which (i) is maintained for employees of the Borrower or any of its ERISA Affiliates or is assumed by the Borrower or any of its ERISA Affiliates in connection with any Acquisition or (ii) has at any time been maintained for the employees of the Borrower or any current or former ERISA Affiliate.

"Environmental Laws" means any federal, state or local statute, law, ordinance, code, rule, regulation, order, decree, permit or license regulating, relating to, or imposing liability or standards of conduct concerning, any environmental matters or conditions, environmental protection or conservation, including without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended; the Superfund Amendments and Reauthorization Act of 1986, as amended; the Resource Conservation and Recovery Act, as amended; the Toxic Substances Control Act, as amended; the Clean Air Act, as amended; the Clean Water Act, as amended; together with all regulations promulgated thereunder, and any other "Superfund" or "Superlien" law.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any successor statute and all rules and regulations promulgated thereunder.

"ERISA Affiliate", as applied to the Borrower, means any Person or trade or business which is a member of a group which is under common control with the Borrower, who together with the Borrower, is treated as a single employer within the meaning of Section 414(b) and (c) of the Code.

"Eurodollar Rate Loan" means a Loan for which the rate of interest is determined by reference to the Eurodollar Rate.

"Eurodollar Rate" means the interest rate per annum calculated according to the following formula:

$$\begin{array}{rcl} \text{Eurodollar} = & \text{INTERBANK OFFERED RATE} & + \text{Applicable} \\ \text{Rate} & \text{-----} & \text{Margin} \\ & \text{1-Eurodollar Reserve Percentage} & \end{array}$$

"Eurodollar Reserve Requirement" means, at any time, the maximum rate at which reserves (including, without limitation, any marginal, special, supplemental, or emergency reserves) are required to be maintained under regulations issued from time to time by the Board of Governors of the Federal Reserve System (or any successor) by member banks of the Federal Reserve System against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall reflect any other reserves required to be maintained by such member banks with respect to (i) any category of liabilities which includes deposits by reference to which the Eurodollar Rate is to be determined, or (ii) any category of extensions of credit or other assets which include Eurodollar Rate Loans. The Eurodollar Rate shall be adjusted automatically on and as of the effective date of any change in the Reserve Requirement.

"Event of Default" means any of the occurrences set forth as such in SECTION 9.1.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the regulations promulgated thereunder.

"Existing Letters of Credit" means those Letters of Credit issued pursuant to the Existing Agreement and described on SCHEDULE 1.1 attached hereto.

"Facility Guaranty" means each Guaranty and Suretyship Agreement between one or more Guarantors and the Agent for the benefit of the Lenders, delivered as of the Closing Date and otherwise pursuant to SECTION 7.19, as the same may be amended, modified or supplemented.

"Facility Termination Date" means the date on which the Revolving Credit Termination Date shall have occurred and the Borrower shall have fully, finally and irrevocably paid and satisfied all Obligations.

"Federal Funds Effective Rate" means, for any day, the rate per annum (rounded upward to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, PROVIDED that (a) if such day is not a Business Day, the Federal Funds Effective Rate for such day shall be such rate on such transactions on the next preceding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Effective Rate for such day shall be the average rate quoted to the Agent on such day on such transaction as determined by the Agent.

"Fiscal Year" means the twelve month fiscal period of the Borrower and its Subsidiaries commencing on January 1 of each calendar year and ending on December 31 of each calendar year.

"Foreign Benefit Law" means any applicable statute, law, ordinance, code, rule, regulation, order or decree of any foreign nation or any province, state, territory, protectorate or other political subdivision thereof regulating, relating to, or imposing liability or standards of conduct concerning, any Employee Benefit Plan.

"Four-Quarter Period" means a period of four full consecutive fiscal quarters of the Borrower and its Subsidiaries, taken together as one accounting period.

"GAAP" or "Generally Accepted Accounting Principles" means generally accepted accounting principles, being those principles of accounting set forth in pronouncements of the Financial Accounting Standards Board, the American Institute of Certified Public Accountants or which have other substantial authoritative support and are applicable in the circumstances as of the date of a report.

"Gemaire" means Gemaire Distributors, Inc., a Florida corporation and a Subsidiary of the Borrower, and its successors.

"Government Securities" means direct obligations of, or obligations the timely payment of principal and interest on which are fully and unconditionally guaranteed by, the United States of America.

"Governmental Authority" shall mean any Federal, state, municipal, national or other governmental department, commission, board, bureau, court, agency or instrumentality or political subdivision thereof or any entity or officer exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to any government or any court, in each case whether associated with a state of the United States, the United States, or a foreign entity or government.

"Guaranties" means all obligations of the Borrower or any Subsidiary directly or indirectly guaranteeing, or in effect guaranteeing, any Indebtedness or other obligation of any other Person.

"Guarantors" means, at any date, the Subsidiaries who are required to be parties to a Facility Guaranty at such date.

"Hazardous Material" means and includes any pollutant, contaminant, or hazardous, toxic or dangerous waste, substance or material (including without limitation petroleum products, asbestos-containing materials and lead), the generation, handling, storage, transportation, disposal, treatment, release, discharge or emission of which is subject to any Environmental Law.

"Heating & Cooling" means Heating & Cooling Supply, Inc., a California corporation and a Subsidiary of the Borrower, and its successors.

"Indebtedness" means with respect to any Person, without duplication, all Indebtedness for Money Borrowed, all indebtedness of such Person for the acquisition of property or arising under Rate Hedging Obligations, all Indebtedness secured by any Lien on the property of such Person whether or not such indebtedness is assumed, all liability of such Person by way of endorsements (other than for collection or deposit in the ordinary course of business), all Guaranties, and other items which in accordance with GAAP are required to be classified as Indebtedness; but excluding all accounts payable and accrued expenses in the ordinary course of business so long as payment therefor is due within one year; provided that in no event shall the term Indebtedness include surplus and retained earnings, lease obligations (other than pursuant to Capital Leases which are accounted for as Indebtedness in accordance with GAAP), reserves for deferred income taxes and investment credits, amounts payable pursuant to deferred compensation arrangements which are expensed in accordance with GAAP, other deferred credits or reserves.

"Indebtedness for Money Borrowed" means with respect to any Person, without duplication, all indebtedness in respect of money borrowed, including without limitation all Capital Leases which are accounted for as Indebtedness in accordance with GAAP and the deferred purchase price of any property or asset, evidenced by a promissory note, bond, debenture or similar written obligation for the payment of money (including conditional sales or similar title retention agreements), other than trade payables or accrued expenses incurred in the ordinary course of business so long as payment therefor is due within one year.

"Issuing Bank" means initially NationsBank and thereafter any Lender which is successor to NationsBank as issuer of Letters of Credit under ARTICLE III.

"Interbank Offered Rate" means, for any Eurodollar Rate Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Telerate Page 3750 (or any successor page) as the London interbank offered rate for deposits in Dollars at approximately 11:00 A.M. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period. If, for any reason, such rate is not available, the term "Interbank Offered Rate" shall mean, with respect to any Eurodollar Rate Loan for any Interest Period therefor, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) appearing on Reuters Screen LIBOR Page as the London interbank offered rate for deposits in Dollars at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period for a term comparable to such Interest Period; PROVIDED, HOWEVER, if more than one rate is specified on Reuters Screen LIBOR Page, the applicable rate shall be the arithmetic mean of all such rates.

"Interest Period" means, for each Eurodollar Rate Loan, a period commencing on the date such Eurodollar Rate Loan is made or Converted and ending, at the Borrower's option, on the date one, two, three or six months or, upon specific request therefor by the Borrower and with the consent of the Agent and the Lenders in their discretion, one year, thereafter as notified to the Agent by the Authorized Representative three (3) Business Days, or in the case of an Interest Period of one year, four (4) Business Days, prior to the beginning of such Interest Period; PROVIDED, that,

(i if the Authorized Representative fails to notify the Agent of the length of an Interest Period three (3) (or four (4), if applicable) Business Days prior to the first day of such Interest Period, the Loan for which such Interest Period was to be determined shall be deemed to be a Base Rate Loan as of the first day thereof;

(ii if an Interest Period for a Eurodollar Rate Loan would end on a day which is not a Business Day, such Interest Period shall be extended to the next Business Day (unless such extension would cause the applicable Interest Period to end in the succeeding calendar month, in which case such Interest Period shall end on the next preceding Business Day);

(iii) any Interest Period which begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month;

(iv) no Interest Period shall extend past the Facility Termination Date; and

(v) there shall not be more than six (6) Interest Periods in effect on any day.

"Interest Rate Selection Notice" means the written notice delivered by an Authorized Representative in connection with the election of a subsequent Interest Period for any Eurodollar Rate Loan or the Conversion of any Eurodollar Rate Loan into a Base Rate Loan or the Conversion of any Base Rate Loan into a Eurodollar Rate Loan in the form of EXHIBIT E.

"LC Account Agreement" means the LC Account Agreement dated as of the date hereof between the Borrower and the Agent, as amended, modified or supplemented from time to time.

"Lending Office" means, as to each Lender, the Lending Office of such Lender designated on the signature pages hereof or in an Assignment and Acceptance or such other office of such Lender (or of an affiliate of such Lender) as such Lender may from time to time specify to the Authorized Representative and the Agent as the office by which its Loans are to be made and maintained.

"Letter of Credit" means a standby or commercial letter of credit issued by the Issuing Bank for the account of the Borrower in favor of a Person advancing credit or securing an obligation on behalf of the Borrower, including the Existing Letters of Credit.

"Letter of Credit Commitment" means, with respect to each Lender, the obligation of such Lender to acquire Participations in respect of Letters of Credit and Reimbursement Obligations up to an aggregate amount at any one time outstanding equal to such Lender's Applicable Commitment Percentage of the Total Letter of Credit Commitment as the same may be increased or decreased from time to time pursuant to this Agreement.

"Letter of Credit Facility" means the facility described in ARTICLE III hereof providing for the issuance by the Issuing Bank for the account of the Borrower of Letters of Credit in an aggregate stated amount at any time outstanding not exceeding the Total Letter of Credit Commitment.

"Letter of Credit Outstandings" means, as of any date of determination, the aggregate amount remaining undrawn under all Letters of Credit plus Reimbursement Obligations then outstanding.

"Lien" means any interest in property securing any obligation owed to, or a claim by, a Person other than the owner of the property, whether such interest is based on the common law, statute or contract, and including but not limited to the lien or security interest arising from a mortgage, encumbrance, pledge, security agreement, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. For the purposes of this Agreement, the Borrower and any Subsidiary shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement, financing lease, or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes.

"Loan", "Revolving Loan", "Swing Line Loan", "Loans", "Revolving Loans" or "Swing Line Loans" means any borrowing pursuant to an Advance under the Revolving Credit Facility, including the Swing Line.

"Loan Documents" means this Agreement, the Notes, the Facility Guaranties, the LC Account Agreement, the Applications and Agreements for Letter of Credit, and all other instruments and documents heretofore or hereafter executed or delivered to or in favor of any Lender or the Agent in connection with the Loans made and transactions contemplated under this Agreement, as the same may be amended, supplemented or replaced from the time to time.

"Major Subsidiaries" means, collectively, (i) Comfort Supply, Gemaire, Central Air Conditioning Distributors, Inc., Three States Supply, Inc. and Heating & Cooling, and (ii) any other Subsidiary meeting the conditions set forth in SECTION 7.19 after the Closing Date.

"Material Adverse Effect" means a material adverse effect on (i) the business, properties, operations or condition, financial or otherwise, of the Borrower and its Subsidiaries and any other Credit Parties taken as a whole, (ii) the ability of any Credit Parties taken as a whole to pay or perform their obligations, liabilities and indebtedness under the Loan Documents as such payment or performance becomes due in accordance with the terms thereof, or (iii) the rights, powers and remedies of the Agent or any Lender under any Loan Document or the validity, legality or enforceability thereof (including for purposes of clauses (ii) and (iii) the imposition of burdensome conditions on the Agent or the Lenders in enforcing such rights, powers and remedies).

"Moody's" means Moody's Investors Service, Inc.

"Multiemployer Plan" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA to which the Borrower or any ERISA Affiliate is making, or is accruing an obligation to make, contributions or has made, or been obligated to make, contributions within the preceding six (6) Fiscal Years.

"Municipal Obligations" means general obligations issued by, and supported by the full taxing authority of, any state of the United States of America or of any municipal corporation or other public body organized under the laws of any such state which are rated in the highest investment rating category by both S&P and Moody's.

"NCMI" means NationsBanc Capital Markets, Inc. and its successors.

"Net Proceeds" from the issuance of equity or Indebtedness means cash payments received therefrom as and when received, net of all legal, accounting, banking, underwriting, title and recording fees and expenses, commissions, discounts and other issuance expenses incurred in connection therewith and all taxes required to be paid or accrued as a consequence of such transaction.

"Notes" means, collectively, the Revolving Notes and the Swing Line Notes of the Borrower executed and delivered to the Lenders and NationsBank, respectively, pursuant to SECTION 2.5, as the same may be amended.

"Obligations" means the obligations, liabilities and Indebtedness of the Borrower with respect to (i) the principal and interest on the Loans as evidenced by the Notes, (ii) the Reimbursement Obligations and otherwise in respect of the Letters of Credit, (iii) the payment of fees, expenses, indemnification obligations arising under the Loan Documents, (iv) all liabilities of Borrower to any Lender which arise under a Swap Agreement, and (v) the payment and performance of all other obligations, liabilities and Indebtedness of the Borrower to the Lenders, the Agent or NCMI hereunder, under any one or more of the other Loan Documents or with respect to the Loans.

"Outstandings" means, collectively, at any date, the Letter of Credit Outstandings, Swing Line Outstandings and Revolving Credit Outstandings on such date.

"Participation" means, (i) with respect to any Lender (other than the Issuing Bank) and a Letter of Credit, the extension of credit represented by the participation of such Lender hereunder in the liability of the Issuing Bank in respect of a Letter of Credit issued by the Issuing Bank in accordance with the terms hereof and (ii) with respect to any Lender (other than NationsBank) and a Swing Line Loan, the extension of credit represented by the participation of such Lender hereunder in the liability of NationsBank in respect of a Swing Line Loan made by NationsBank in accordance with the terms hereof.

"PBGC" means the Pension Benefit Guaranty Corporation and any successor thereto.

"Pension Plan" means any employee pension benefit plan within the meaning of Section 3(2) of ERISA, other than a Multiemployer Plan, which is subject to the provisions of Title IV of ERISA or Section 412 of the Code and which (i) is maintained for employees of the Borrower or any of its ERISA Affiliates or is assumed by the Borrower or any of its

ERISA Affiliates in connection with any Acquisition or (ii) has at any time been maintained for the employees of the Borrower or any current or former ERISA Affiliate.

"Person" means an individual, partnership, corporation, trust, unincorporated organization, association, joint venture or a government or agency or political subdivision thereof.

"Pre-Refunded Municipal Obligations" means obligations of any state of the United States of America or of any municipal corporation or other public body organized under the laws of any such state which are rated, based on the escrow, in the highest investment rating category by both S&P and Moody's and which have been irrevocably called for redemption and advance refunded through the deposit in escrow of Government Securities or other debt securities which are (i) not callable at the option of the issuer thereof prior to maturity, (ii) irrevocably pledged solely to the payment of all principal and interest on such obligations as the same becomes due and (iii) in a principal amount and bear such rate or rates of interest as shall be sufficient to pay in full all principal of, interest, and premium, if any, on such obligations as the same becomes due as verified by a nationally recognized firm of certified public accountants.

"Preferred Stock" means the 6.5% Series A Preferred Stock issued by Heating and Cooling, a Subsidiary of the Borrower, of which 2,000 shares are authorized, issued and outstanding and 2,000 of such shares are owned of record by Rheem.

"Prime Rate" means the rate of interest per annum announced publicly by the Agent as its prime rate from time to time. The Prime Rate is not necessarily the best or the lowest rate of interest offered by the Agent.

"Principal Office" means the office of the Agent at NationsBank, National Association, Independence Center, 15th Floor, NC1 001-15-04, Charlotte, North Carolina 28255, Attention: Agency Services, or such other office and address as the Agent may from time to time designate.

"Private Placement Debt" means unsecured Indebtedness for Money Borrowed issued by the Borrower in a private placement transaction; provided that all of the following conditions shall be satisfied:

- (i) no portion of principal thereof shall be payable or required to be purchased (whether by scheduled installment, mandatory prepayment or redemption, or the exercise of any put right) prior to the Stated Termination Date;
- (ii) the instruments and agreements evidencing such Indebtedness, and any agreement under which such Indebtedness is created, shall provide that the right to payment of the holders or owners of Private Placement Debt (including any trustee or agent acting on behalf of such holders or owners,

collectively "Private Placement Debt Holders") shall either be subordinate to or rank PARI PASSU in all respects with the rights of the Lenders and the Agent to payment and performance of the Obligations on terms reasonably acceptable to the Agent;

- (iii) both immediately prior to and immediately after giving effect to the issuance of such Indebtedness, there shall not have occurred and be continuing any Default or Event of Default;
- (iv) the Borrower shall furnish to the Agent, not later than the earliest date of delivery thereof to any actual or prospective Private Placement Debt Holder, copies of (A) all preliminary placement memoranda and final placement memoranda relating to such Indebtedness and (B) drafts of all documents and agreements under which such Indebtedness is to be created or governed; and
- (v) not later than ten (10) days prior to the issuance of such Indebtedness, the Borrower shall deliver to the Agent a certificate in the form of EXHIBIT H, executed by an Authorized Representative and containing calculations giving historical pro forma effect to the issuance of such Indebtedness as of and for the Four-Quarter Period ending at the end of most recent fiscal quarter of the Borrower preceding the date of such issuance (assuming for such purpose that the initial rate or rates of interest provided for therein (and giving effect to any increase in rates of interest therein provided) remained in effect for such Four-Quarter Period), which certificate shall demonstrate that the issuance of such Indebtedness does not cause, create or result in a Default or Event of Default on a historical pro forma basis.

"Rate Hedging Obligations" means any and all obligations of the Borrower or any Subsidiary, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all agreements, devices or arrangements designed to protect at least one of the parties thereto from the fluctuations of interest rates, exchange rates or forward rates applicable to such party's assets, liabilities or exchange transactions, including, but not limited to, Dollar-denominated or cross-currency interest rate exchange agreements, forward currency exchange agreements, interest rate cap or collar protection agreements, forward rate currency or interest rate options, puts, warrants and those commonly known as interest rate "swap" agreements; and (ii) any and all cancellations, buybacks, reversals, terminations or assignments of any of the foregoing.

"Regulation D" means Regulation D of the Board as the same may be amended or supplemented from time to time.

"Reimbursement Obligation" shall mean at any time, the obligation of the Borrower with respect to any Letter of Credit to reimburse the Issuing Bank and the Lenders to the

extent of their respective Participations (including by the receipt by the Issuing Bank of proceeds of Loans pursuant to SECTION 3.2) for amounts theretofore paid by the Issuing Bank pursuant to a drawing under such Letter of Credit.

"Repurchase Agreement" means a repurchase agreement entered into with any financial institution whose debt obligations or commercial paper are rated "A" by either of S&P or Moody's or "A-1" by S&P or "P-1" by Moody's.

"Required Lenders" means, as of any date, Lenders on such date having Credit Exposures (as defined below) aggregating at least 66-2/3% of the aggregate Credit Exposures of all the Lenders on such date. For purposes of the preceding sentence, the amount of the "CREDIT EXPOSURE" of each Lender shall be equal to the aggregate principal amount of the Loans owing to such Lender plus the aggregate unutilized amounts of such Lender's Revolving Credit Commitment (without regard to any Swing Line Outstandings) plus the amount of such Lender's Applicable Commitment Percentage of Letter of Credit Outstandings; provided that, (i) if any Lender shall have failed to honor its obligation to make all or a portion of any Advance it shall not be deemed to have any Credit Exposure, (ii) if any Lender shall have failed to pay to the Issuing Bank its Applicable Commitment Percentage of any drawing under any Letter of Credit resulting in an outstanding Reimbursement Obligation, such Lender's Credit Exposure attributable to Letters of Credit and Reimbursement Obligations shall be deemed to be held by the Issuing Bank for purposes of this definition and (iii) if any Lender shall have failed to pay to NationsBank its Applicable Commitment Percentage of any Swing Line Loan, such Lender's Credit Exposure attributable to all Swing Line Outstandings shall be deemed to be held by NationsBank for purposes of this definition.

"Restricted Payment" means (a) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of Borrower or any of its Subsidiaries (other than those payable or distributable solely to the Borrower) now or hereafter outstanding, except a dividend payable solely in shares of a class of stock to the holders of that class; (b) any redemption, conversion, exchange, retirement or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock of Borrower or any of its Subsidiaries (other than those payable or distributable solely to the Borrower) now or hereafter outstanding; (c) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock of Borrower or any of its Subsidiaries now or hereafter outstanding; and (d) any issuance and sale of capital stock of any Subsidiary of the Borrower (or any option, warrant or right to acquire such stock) other than to the Borrower.

"Revolving Credit Commitment" means, with respect to each Lender, the obligation of such Lender to make Loans to the Borrower up to an aggregate principal amount at any one time outstanding equal to such Lender's Applicable Commitment Percentage of the Total Revolving Credit Commitment.

"Revolving Credit Facility" means the facility described in Article II hereof providing for Loans to the Borrower by the Lenders in the aggregate principal amount of the Total Revolving Credit Commitment less the aggregate amount of outstanding Swing Line Loans.

"Revolving Credit Outstandings" means, as of any date of determination, the aggregate principal amount of all Loans then outstanding and all interest accrued thereon.

"Revolving Credit Termination Date" means (i) the Stated Termination Date or (ii) such earlier date of termination of Lenders' obligations pursuant to SECTION 9.1 upon the occurrence of an Event of Default, or (iii) such date as the Borrower may voluntarily and permanently terminate the Revolving Credit Facility by payment in full of all Revolving Credit Outstandings, Swing Line Outstandings and Letter of Credit Outstandings and cancellation of all Letters of Credit.

"Revolving Loan" means any borrowing pursuant to an Advance under the Revolving Credit Facility in accordance with Section 2.1.

"Revolving Notes" means the promissory notes of the Borrower evidencing Revolving Loans executed and delivered to the Lenders substantially in the form of EXHIBIT F-1.

"Rheem" means Rheem Manufacturing Company, a New York corporation and its successors.

"S&P" means Standard & Poor's Ratings Group, a division of McGraw-Hill.

"Single Employer Plan" means any employee pension benefit plan covered by Title IV of ERISA in respect of which the Borrower or any Subsidiary is an "employer" as described in Section 4001(b) of ERISA and which is not a Multiemployer Plan.

"Solvent" means, when used with respect to any Person, that at the time of determination:

(i) the fair value of its assets (both at fair valuation and at present fair saleable value on an orderly basis) is in excess of the total amount of its liabilities, including Contingent Obligations; and

(ii) it is then able and expects to be able to pay its debts as they mature; and

(iii) it has capital sufficient to carry on its business as conducted and as proposed to be conducted.

"Stated Termination Date" means August 8, 2002.

"Subsidiary" means any corporation or other entity in which 50% or more of its outstanding voting stock or 50% or more of all equity interests is owned directly or indirectly by the Borrower and/or by one or more of the Borrower's Subsidiaries.

"Swap Agreement" means one or more agreements between the Borrower and any Person with respect to Indebtedness evidenced by any or all of the Notes, on terms mutually acceptable to Borrower and such Person and approved by the Required Lenders, which agreements create Rate Hedging Obligations; PROVIDED, HOWEVER, that no such approval of the Lenders shall be required to the extent such agreements are entered into between the Borrower and any Lender.

"Swing Line" means the revolving line of credit established by NationsBank in favor of the Borrower pursuant to SECTION 2.13.

"Swing Line Loans" means Loans made by NationsBank to the Borrower pursuant to SECTION 2.13.

"Swing Line Note" means the promissory note of the Borrower evidencing Swing Line Loans executed and delivered to NationsBank substantially in the form of EXHIBIT F-2.

"Termination Event" means: (i) a "Reportable Event" described in Section 4043 of ERISA and the regulations issued thereunder (unless the notice requirement has been waived by applicable regulation); or (ii) the withdrawal of the Borrower or any ERISA Affiliate from a Pension Plan during a plan year in which it was a "substantial employer" as defined in Section 4001(a)(2) of ERISA or was deemed such under Section 4068(f) of ERISA; or (iii) the termination of a Pension Plan, the filing of a notice of intent to terminate a Pension Plan or the treatment of a Pension Plan amendment as a termination under Section 4041 of ERISA; or (iv) the institution of proceedings to terminate a Pension Plan by the PBGC; or (v) any other event or condition which would constitute grounds under Section 4042(a) of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan; or (vi) the partial or complete withdrawal of the Borrower or any ERISA Affiliate from a Multiemployer Plan; or (vii) the imposition of a Lien pursuant to Section 412 of the Code or Section 302 of ERISA; or (viii) any event or condition which results in the reorganization or insolvency of a Multiemployer Plan under Section 4241 or Section 4245 of ERISA, respectively; or (ix) any event or condition which results in the termination of a Multiemployer Plan under Section 4041A of ERISA or the institution by the PBGC of proceedings to terminate a Multiemployer Plan under Section 4042 of ERISA.

"Total Letter of Credit Commitment" means an amount not to exceed \$5,000,000.

"Total Revolving Credit Commitment" means a principal amount equal to \$260,000,000, as reduced from time to time in accordance with SECTION 2.7.

"Type" shall mean any type of Loan (i.e., a Base Rate Loan or a Eurodollar Rate Loan).

"Voting Stock" means shares of capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies or other voting trusts or agreements, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

"Weathertrol Acquisition" means the ownership by Borrower of one hundred percent (100%) of the common stock of WSC Holdings, following the merger of WSC Holdings and Weathertrol, in which WSC Holdings will be the surviving corporation.

"WSC Holdings" means WSC Holdings, Inc., a North Carolina corporation, and prior to the Weathertrol Acquisition a wholly-owned Subsidiary of Borrower.

"WSC Preferred Stock" means the Class A Preferred Stock, par value \$1,000 per share, of which no more than 6,000 shares will be issued and outstanding following the Weathertrol Acquisition and the Class B Preferred Stock, par value \$1,000 per share, of which no more than 4,000 shares will be issued and outstanding following the Weathertrol Acquisition, in each case issued by WSC Holdings and which, in each case, is (1) convertible into shares of common stock of Borrower at any time at the option of the holders thereof, and (2) redeemable at the option of the holders for an amount equal to the par value thereof plus accrued but unpaid dividends thereof, provided that the redemption right with respect to the Class A Preferred Stock may not be exercised until after January 31, 1998 and the redemption right with respect to the Class B Preferred Stock may not be exercised until after June 30, 2000.

"WSC ESOP" means the Weathertrol Supply Company Employees' Stock Ownership Plan and Trust established by a trust agreement executed August 8, 1994.

I.3. RULES OF INTERPRETATION.

(a All accounting terms not specifically defined herein shall have the meanings assigned to such terms and shall be interpreted in accordance with GAAP applied on a Consistent Basis.

(b Each term defined in Article 1 or 9 of the Florida Uniform Commercial Code shall have the meaning given therein unless otherwise defined herein, except to the extent that the Uniform Commercial Code of another jurisdiction is controlling, in which case such terms shall have the meaning given in the Uniform Commercial Code of the applicable jurisdiction.

(c The headings, subheadings and table of contents used herein or in any other Loan Document are solely for convenience of reference and shall not constitute a part of any such document or affect the meaning, construction or effect of any provision thereof.

(d Except as otherwise expressly provided, references herein to articles, sections, paragraphs, clauses, annexes, appendices, exhibits and schedules are references to articles, sections, paragraphs, clauses, annexes, appendices, exhibits and schedules in or to this Agreement.

(e All definitions set forth herein or in any other Loan Document shall apply to the singular as well as the plural form of such defined term, and all references to the masculine gender shall include reference to the feminine or neuter gender, and VICE VERSA, as the context may require.

(f When used herein or in any other Loan Document, words such as "hereunder", "hereto", "hereof" and "herein" and other words of like import shall, unless the context clearly indicates to the contrary, refer to the whole of the applicable document and not to any particular article, section, subsection, paragraph or clause thereof.

(g References to "including" means including without limiting the generality of any description preceding such term, and for purposes hereof the rule of EJUSDEM GENERIS shall not be applicable to limit a general statement, followed by or referable to an enumeration of specific matters, to matters similar to those specifically mentioned.

(h All dates and times of day specified herein shall refer to such dates and times at Charlotte, North Carolina.

(i Each of the parties to the Loan Documents and their counsel have reviewed and revised, or requested (or had the opportunity to request) revisions to, the Loan Documents, and any rule of construction that ambiguities are to be resolved against the drafting party shall be inapplicable in the construing and interpretation of the Loan Documents and all exhibits, schedules and appendices thereto.

(j Any reference to an officer of the Borrower or any other Person by reference to the title of such officer shall be deemed to refer to each other officer of such Person, however titled, exercising the same or substantially similar functions.

(k All references to any agreement or document as amended, modified or supplemented, or words of similar effect, shall mean such document or agreement, as the case may be, as amended, modified or supplemented from time to time only as and to the extent permitted therein and in the Loan Documents.

I.4 ACCOUNTING CHANGES. Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to

financial matters required to be delivered to the Lenders hereunder shall be prepared, in accordance with GAAP, applied on a Consistent Basis. All financial statements delivered to the Lenders hereunder shall be accompanied by a statement from the Borrower that GAAP has not changed since the most recent financial statements delivered by the Borrower to the Lenders or if GAAP has changed describing such changes in detail and explaining how such changes affect the financial statements. All calculations made for the purposes of determining compliance with this Credit Agreement shall (except as otherwise expressly provided herein) be made by application of GAAP applied on a basis consistent with the most recent annual or quarterly financial statements delivered pursuant to SECTION 7.1 (or, prior to the delivery of the first financial statements pursuant to SECTION 7.1, consistent with the financial statements dated December 31, 1996; provided, however, if (a) the Borrower shall object to determining such compliance on such basis at the time of delivery of such financial statements due to any change in GAAP or the rules promulgated with respect thereto or (b) the Agent or the Required Lenders shall so object in writing within 60 days after delivery of such financial statements (or after the Lenders have been informed of the change in GAAP affecting such financial statements, if later), then such calculations shall be made on a basis consistent with the most recent financial statements delivered by the Borrower to the Lenders as to which no such objection shall have been made.

ARTICLE II

THE REVOLVING CREDIT FACILITY

II.1. REVOLVING LOANS.

(a COMMITMENT. Subject to the terms and conditions of this Agreement, each Lender severally agrees to make Advances to the Borrower under the Revolving Credit Facility from time to time from the Closing Date until the Revolving Credit Termination Date on a pro rata basis as to the total borrowing requested by the Borrower on any day determined by such Lender's Applicable Commitment Percentage up to but not exceeding the Revolving Credit Commitment of such Lender, PROVIDED, however, that the Lenders will not be required and shall have no obligation to make any such Advance (i) so long as a Default or an Event of Default has occurred and is continuing or (ii) if the Agent has accelerated the maturity of any of the Notes as a result of an Event of Default; and PROVIDED further, however, that immediately after giving effect to each such Advance, the principal amount of Outstandings shall not exceed the Total Revolving Credit Commitment. Within such limits, the Borrower may borrow, repay and reborrow under the Revolving Credit Facility on any Business Day from the Closing Date until, but (as to borrowings and reborrowings) not including, the Revolving Credit Termination Date; PROVIDED, however, that (y) no Revolving Loan that is a Eurodollar Rate Loan shall be made which has an Interest Period that extends beyond the Stated Termination Date and (z) each Revolving Loan that is a Eurodollar Rate Loan may, subject to the provisions of SECTION 2.8, be repaid only on the last day of the Interest Period with respect thereto unless such payment is accompanied by the additional payment, if any, required by SECTION 4.5.

(b AMOUNTS. Except as otherwise permitted by the Lenders from time to time, the aggregate unpaid principal amount of the Outstandings shall not exceed at any time the Total Revolving Credit Commitment, and, in the event there shall be outstanding any such excess, the Borrower shall immediately make such payments and prepayments as shall be necessary to comply with this restriction. Each Loan hereunder and each Conversion under SECTION 2.8, shall be in an amount of at least \$2,500,000, and, if greater than \$2,500,000, an integral multiple of \$500,000.

(c ADVANCES. (i) An Authorized Representative shall give the Agent (1) at least three (3) Business Days' (or if an Interest Period of one year is being requested, four (4) Business Days') irrevocable written notice by telefacsimile transmission of a Borrowing Notice or Interest Rate Selection Notice (as applicable) with appropriate insertions, effective upon receipt, of each Loan that is a Eurodollar Rate Loan (whether representing an additional borrowing hereunder or the Conversion of a borrowing hereunder from Base Rate Loans to Eurodollar Rate Loans) prior to 10:30 A.M. and (2) irrevocable written notice by telefacsimile transmission of a Borrowing Notice or Interest Rate Selection Notice (as applicable) with appropriate insertions, effective upon receipt, of each Loan that is a Base Rate Loan (whether representing an additional borrowing hereunder or the Conversion of borrowing hereunder from Eurodollar Rate Loans to Base Rate Loans) prior to 10:30 A.M. on the day of such proposed Loan. Each such notice shall specify the amount of the borrowing, the type of Loan (Base Rate or Eurodollar Rate), the date of borrowing and, if a

Eurodollar Rate Loan, the Interest Period to be used in the computation of interest. If a one year Interest Period is being requested by the Borrower with respect to any Loan, the Borrowing Notice or Interest Rate Selection Notice shall so indicate. Notice of receipt of such Borrowing Notice or Interest Rate Selection Notice, as the case may be, together with the amount of each Lender's portion of an Advance requested thereunder and, in the event that the Borrower has requested an Interest Period of one year for any Eurodollar Rate Loan, notice of such request, shall be provided by the Agent to each Lender by telefacsimile transmission with reasonable promptness, but (provided the Agent shall have received such notice by 10:30 A.M.) not later than 1:00 P.M. on the same day as the Agent's receipt of such notice. Each Lender who receives notice from the Agent that the Borrower has requested under this ARTICLE II an Interest Period of one year for any Eurodollar Rate Loan as provided above shall, not later than 3:00 P.M. on the date of receipt of such notice, notify the Agent by telefacsimile transmission whether such Lender is willing to make available the requested Interest Period of one year. Notwithstanding anything to the contrary herein contained, in the event that all Lenders do not consent to the requested one year Interest Period as to a requested Eurodollar Rate Loan, then the Borrower shall be deemed to have requested an Interest Period of six months with respect to such Eurodollar Rate Loan.

(ii) Not later than 2:00 P.M. on the date specified for each borrowing under this SECTION 2.1, each Lender shall, pursuant to the terms and subject to the conditions of this Agreement, make the amount of the Advance or Advances to be made by it on such day available by wire transfer to the Agent in the amount of its pro rata share, determined according to such Lender's Applicable Commitment Percentage of the Loan or Loans to be made on such day. Such wire transfer shall be directed to the Agent at the Principal Office and shall be in the form of Dollars constituting immediately available funds. The amount so received by the Agent shall, subject to the terms and conditions of this Agreement, be made available to the Borrower by delivery of the proceeds thereof to the Borrower's Account or otherwise as shall be directed in the applicable Borrowing Notice by the Authorized Representative and reasonably acceptable to the Agent.

(iii) The Borrower shall have the option to elect the duration of the initial and any subsequent Interest Periods and to convert the Loans in accordance with SECTION 2.8. Eurodollar Rate Loans and Base Rate Loans may be outstanding at the same time, PROVIDED, HOWEVER, there shall not be outstanding at any one time Eurodollar Rate Loans having more than six (6) different Interest Periods. If the Agent does not receive a Borrowing Notice or an Interest Rate Selection Notice giving notice of election of the duration of an Interest Period or of Conversion of any Loan to or Continuation of a Loan as a Eurodollar Rate Loan by the time prescribed by SECTION 2.1(C) OR 2.8, or if a Default or Event of Default shall exist, the Borrower shall be deemed to have elected to Convert such Loan to (or Continue such Loan as) a Base Rate Loan until the Borrower notifies the Agent in accordance with SECTION 2.8.

(iv) Notwithstanding the foregoing, if a drawing is made under any Letter of Credit, such drawing is honored by the Issuing Bank prior to the Revolving Credit Termination Date, and the Borrower shall not immediately fully reimburse the Issuing Bank in respect of such drawing, (A) provided that the conditions to making a Revolving Loan as herein provided shall then be satisfied, the Reimbursement Obligation arising from such drawing shall be paid to the Issuing Bank by the

Agent without the requirement of notice to or from the Borrower from immediately available funds which shall be advanced as a Base Rate Refunding Loan by each Lender under the Revolving Credit Facility in an amount equal to such Lender's Applicable Commitment Percentage of such Reimbursement Obligation, and (B) if the conditions to making a Revolving Loan as herein provided shall not then be satisfied, each of the Lenders shall fund by payment to the Agent (for the benefit of the Issuing Bank) in immediately available funds the purchase from the Issuing Bank of their respective Participations in the related Reimbursement Obligation based on their respective Applicable Commitment Percentages of the Total Letter of Credit Commitment. If a drawing is presented under any Letter of Credit in accordance with the terms thereof and the Borrower shall not immediately reimburse the Issuing Bank in respect thereof, then notice of such drawing or payment shall be provided promptly by the Issuing Bank to the Agent and the Agent shall provide notice to each Lender by telephone or telefacsimile transmission. If notice to the Lenders of a drawing under any Letter of Credit is given by the Agent at or before 12:00 noon on any Business Day, each Lender shall, pursuant to the conditions specified in this SECTION 2.1(C)(IV), either make a Base Rate Refunding Loan or fund the purchase of its Participation in the amount of such Lender's Applicable Commitment Percentage of such drawing or payment and shall pay such amount to the Agent for the account of the Issuing Bank at the Principal Office in Dollars and in immediately available funds before 2:30 P.M. on the same Business Day. If notice to the Lenders of a drawing under a Letter of Credit is given by the Agent after 12:00 noon on any Business Day, each Lender shall, pursuant to the conditions specified in this SECTION 2.1(C)(IV), either make a Base Rate Refunding Loan or fund the purchase of its Participation in the amount of such Lender's Applicable Commitment Percentage of such drawing or payment and shall pay such amount to the Agent for the account of the Issuing Bank at the Principal Office in Dollars and in immediately available funds before 12:00 noon on the next following Business Day. Any such Base Rate Refunding Loan shall be advanced as, and shall continue as, a Base Rate Loan unless and until the Borrower converts such Base Rate Loan in accordance with the terms of SECTION 2.8.

II.2. PAYMENT OF INTEREST. (a) The Borrower shall pay interest to the Agent for the account of each Lender on the outstanding and unpaid principal amount of each Loan made by such Lender for the period commencing on the date of such Loan until such Loan shall be due at the then applicable Base Rate for Base Rate Loans or applicable Eurodollar Rate for Eurodollar Rate Loans, as designated by the Authorized Representative pursuant to SECTION 2.1; PROVIDED, however, that if any amount shall not be paid when due (at maturity, by acceleration or otherwise), all amounts outstanding hereunder shall bear interest thereafter at the Default Rate.

(b) Interest on each Loan shall be computed on the basis of a year of 360 days and calculated in each case for the actual number of days elapsed. Interest on each Loan shall be paid (i) quarterly in arrears on the last Business Day of each June, September, December and March, commencing September 30, 1997 for each Base Rate Loan, (ii) on the last day of the applicable Interest Period for each Eurodollar Rate Loan and, if such Interest Period extends for more than three (3) months, at intervals of three (3) months after the first day of such Interest Period, and (iii) upon payment in full of the principal amount of such Loan.

II.3. PAYMENT OF PRINCIPAL. The principal amount of each Loan shall be due and payable to the Agent for the benefit of each Lender in full on the Revolving Credit Termination Date, or earlier as specifically provided herein. The principal amount of any Base Rate Loan may be prepaid in whole or in part at any time. The principal amount of any Eurodollar Rate Loan may be prepaid only at the end of the applicable Interest Period unless the Borrower shall pay to the Agent for the account of the Lenders the additional amount, if any, required under SECTION 4.4. All prepayments of Loans made by the Borrower shall be in the amount of \$2,500,000 or such greater amount which is an integral multiple of \$500,000, or the amount equal to all Revolving Credit Outstandings, or such other amount as necessary to comply with SECTION 2.1(B) or SECTION 2.8. The Borrower shall notify the Agent of its intent to pay the principal amount of a Loan not later than 10:30 A.M. on the date of such payment.

II.4. NON-CONFORMING PAYMENTS. (a) Each payment of principal (including any prepayment) and payment of interest and fees, and any other amount required to be paid to the Lenders with respect to the Loans, shall be made to the Agent at the Principal Office, for the account of each Lender, in Dollars and in immediately available funds before 12:30 P.M. on the date such payment is due. The Agent may, but shall not be obligated to, debit the amount of any such payment which is not made by such time against any ordinary deposit account, if any, of the Borrower with the Agent.

(b) The Agent shall deem any payment made by or on behalf of the Borrower hereunder that is not made both in Dollars and in immediately available funds and prior to 12:30 P.M. to be a non-conforming payment. Any such payment shall not be deemed to be received by the Agent until the later of (i) the time such funds become available funds and (ii) the next Business Day. Any non-conforming payment may constitute or become a Default or Event of Default. Interest shall continue to accrue on any principal as to which a non-conforming payment is made until the later of (x) the date such funds become available funds or (y) the next Business Day at the Default Rate from the date such amount was due and payable.

(c) In the event that any payment hereunder or under the Notes becomes due and payable on a day other than a Business Day, then such due date shall be extended to the next succeeding Business Day unless provided otherwise under clause (ii) of the definition of "Interest Period"; PROVIDED that interest shall continue to accrue during the period of any such extension and PROVIDED further, that in no event shall any such due date be extended beyond the Revolving Credit Termination Date.

II.5. NOTES. (a) Revolving Loans made by each Lender shall be evidenced by the Revolving Note payable to the order of such Lender in the respective amount of its Applicable Commitment Percentage of the Revolving Credit Commitment, which Revolving Note shall be dated the Closing Date or a later date pursuant to an Assignment and Acceptance and shall be duly completed, executed and delivered by the Borrower.

(b) The Swing Line Loans of NationsBank shall be evidenced by the Swing Line Note which Swing Line Note shall be dated the Closing Date.

II.6. PRO RATA PAYMENTS. Except as otherwise provided herein, (a) each payment on account of the principal of and interest on the Loans (other than Swing Line Loans) and the fees described in SECTION 2.10 shall be made to the Agent for the account of the Lenders pro rata based on their Applicable Commitment Percentages, (b) all payments to be made by the Borrower for the account of each of the Lenders on account of principal, interest and fees, shall be made without diminution, setoff, recoupment or counterclaim, and (c) the Agent will promptly distribute to the Lenders in immediately available funds payments received in fully collected, immediately available funds from the Borrower.

II.7. REDUCTIONS. The Borrower shall, by notice from an Authorized Representative, have the right from time to time but not more frequently than once each calendar month, upon not less than five (5) Business Days' written notice to the Agent, effective upon receipt, to reduce the Total Revolving Credit Commitment. The Agent shall give each Lender, within one (1) Business Day of receipt of such notice, telefacsimile notice, or telephonic notice (confirmed in writing), of such reduction. Each such reduction shall be in the aggregate amount of \$5,000,000 or such greater amount which is in an integral multiple of \$1,000,000, or the entire remaining Total Revolving Credit Commitment, and shall permanently reduce the Total Revolving Credit Commitment. Each reduction of the Total Revolving Credit Commitment shall be accompanied by payment of the Loans to the extent that the amount of Outstandings exceeds the Total Revolving Credit Commitment after giving effect to such reduction, together with accrued and unpaid interest on the amounts prepaid. No such reduction shall result in the payment of any Eurodollar Rate Loan other than on the last day of the Interest Period of such Eurodollar Rate Loan unless such prepayment is accompanied by amounts due, if any, under SECTION 4.5.

II.8. CONVERSIONS AND ELECTIONS OF SUBSEQUENT INTEREST PERIODS. Provided that no Default or Event of Default shall have occurred and be Continuing and subject to the limitations set forth below and in ARTICLE IV, the Borrower may (subject, in the case of Eurodollar Rate Loans requested to have an Interest Period of one year, to the consent of the Lenders as hereinabove provided):

(a upon delivery, effective upon receipt, of a properly completed Interest Rate Selection Notice to the Agent on or before 10:30 A.M. on any Business Day, Convert all or a part of Eurodollar Rate Loans to Base Rate Loans on the last day of the Interest Period for such Eurodollar Rate Loans; and

(b upon delivery, effective upon receipt, of a properly completed Interest Rate Selection Notice to the Agent on or before 10:30 A.M. three (3) Business Days (or in the case of Eurodollar Rate Loans requested to have an Interest Period of one year, four (4) Business Days) prior to the date of such election or Conversion:

(i elect a subsequent Interest Period for all or a portion of Eurodollar Rate Loans to begin on the last day of the then current Interest Period for such Eurodollar Rate Loans; and

(ii Convert Base Rate Loans to Eurodollar Rate Loans on any Business Day.

Each election and Conversion pursuant to this SECTION 2.8 shall be subject to the limitations on Eurodollar Rate Loans set forth in the definition of "Interest Period" herein and in SECTIONS 2.1, 2.3 and ARTICLE IV. Notice of receipt of each such election or Conversion, together with, in the event that the Borrower has requested an Interest Period of one year for any Eurodollar Rate Loan, notice of such request, shall be provided by the Agent to each Lender by telefacsimile transmission with reasonable promptness, but (provided the Agent shall have received such notice by 10:30 A.M.) not later than 1:00 P.M. on the same day as the Agent's receipt of such notice. All such Continuations or Conversions of Loans shall be effected pro rata based on the Applicable Commitment Percentages of the Lenders.

II.9. [RESERVED]

II.10. UNUSED FEES. For the period beginning on the Closing Date and ending on the Revolving Credit Termination Date, the Borrower agrees to pay to the Agent, for the pro rata benefit of the Lenders based on their Applicable Commitment Percentages, an unused fee equal to the Applicable Unused Fee multiplied by the average daily amount by which the Total Revolving Credit Commitment exceeds the sum of (i) Revolving Credit Outstandings plus (ii) Letter of Credit Outstandings. Swing Line Loans shall not be outstanding Loans for purposes of determining such fee. Such fees shall be due in arrears on the last Business Day of each June, September, December and March commencing September 30, 1997 to and on the Revolving Credit Termination Date. Notwithstanding the foregoing, so long as any Lender fails to make available any portion of its Revolving Credit Commitment when requested, such Lender shall not be entitled to receive payment of its pro rata share of such fee until such Lender shall make available such portion. Such fee shall be calculated on the basis of a year of 360 days for the actual number of days elapsed.

II.11. DEFICIENCY ADVANCES. No Lender shall be responsible for any default of any other Lender in respect to such other Lender's obligation to make any Loan hereunder nor shall the Revolving Credit Commitment of any Lender hereunder be increased as a result of such default of any other Lender. Without limiting the generality of the foregoing, in the event any Lender shall fail to advance funds to the Borrower as herein provided, the Agent may in its discretion, but shall not be obligated to, advance under the Revolving Note in its favor as a Lender all or any portion of such amount or amounts (each, a "deficiency advance") and shall thereafter be entitled to payments of principal of and interest on such deficiency advance in the same manner and at the same interest rate or rates to which such other Lender would have been entitled had it made such advance under its Revolving Note; provided that, upon payment to the Agent from such other Lender of the entire outstanding amount of each such deficiency advance, together with accrued and unpaid interest thereon, from the most recent date or dates interest was paid to the Agent by the Borrower on each Loan comprising the deficiency advance at the interest rate per annum for overnight borrowing by the Agent from the Federal Reserve Bank, then such payment shall be credited against the Revolving Note of the Agent in full payment of such deficiency advance and the Borrower shall be deemed to have borrowed the amount of such deficiency advance from such other Lender as of the most recent

date or dates, as the case may be, upon which any payments of interest were made by the Borrower thereon.

II.12. USE OF PROCEEDS. The proceeds of the Loans made pursuant to the Revolving Credit Facility hereunder shall be used by the Borrower (i) for working capital needs and (ii) for general corporate purposes, including the making of Acquisitions permitted hereunder.

2.13 SWING LINE. Notwithstanding any other provision of this Agreement to the contrary, in order to administer the Revolving Credit Facility in an efficient manner and to minimize the transfer of funds between the Agent and the Lenders, NationsBank shall make available Swing Line Loans to the Borrower at the election of Borrower prior to the Revolving Credit Termination Date. NationsBank shall not make any Swing Line Loan pursuant hereto (i) if the Borrower is not in compliance with all the conditions to the making of Revolving Loans set forth in this Agreement, (ii) if after giving effect to such Swing Line Loan, the outstanding Swing Line Loans exceed \$15,000,000, or (iii) if after giving effect to such Swing Line Loan, the sum of the Revolving Credit Outstandings and outstanding Swing Line Loans and Letter of Credit Outstandings exceeds the Total Revolving Credit Commitment. Loans made pursuant to this SECTION 2.13 shall be limited to Loans bearing interest at the Base Rate or such other rate of interest as agreed upon by the Borrower and NationsBank.

(i) the Borrower may borrow, repay and reborrow under this SECTION 2.13. Borrowings under the Swing Line may be made in amounts of \$100,000 or greater upon telephonic (confirmed in writing) or telefacsimile request by an Authorized Representative of the Borrower made to NationsBank not later than 12:00 noon Charlotte, North Carolina time on the Business Day of the requested borrowing. Each repayment of a Swing Line Loan shall be in integral multiples of \$100,000 or the unpaid amount of the Swing Line Loan Outstandings. The minimum outstanding amount of Swing Line Loans shall be \$100,000.

(ii) If the Borrower instructs NationsBank to debit its demand deposit account in an amount of any payment with respect to a Swing Line Loan, or NationsBank otherwise receives repayment after 2:00 P.M. Charlotte, North Carolina time, on a Business Day, such payment shall be deemed received on the next Business Day.

(iii) The Borrower and each Lender which is or may become a party hereto acknowledge that all Swing Line Loans are to be made solely by NationsBank to the Borrower but that such Lender shall share the risk of loss with respect to such Advances in an amount equal to such Lender's Applicable Commitment Percentage of such Swing Line Loan. Upon demand made by NationsBank, each Lender (including NationsBank) shall, according to its Lender's Applicable Commitment Percentage of such Swing Line Loan, promptly provide to NationsBank its purchase price therefor in an amount equal to its Participation therein, in which case such Swing Line Loan shall be deemed from and after such date (to the extent Borrower has not Converted such loan pursuant to SECTION 2.8) a Base Rate Refunding Loan made in accordance with this Agreement. The obligation of each Lender to so provide its purchase price to NationsBank shall be absolute and unconditional

and shall not be affected by the occurrence of an Event of Default or any other occurrence or event.

(iv) The Borrower at its option may request an Advance as a Revolving Loan pursuant to SECTION 2.1 in an amount sufficient to repay any or all Swing Line Loans on any date (subject to three (3) Business Days prior notice in the case of Eurodollar Rate Loans and four (4) Business Days prior notice in the case of a Eurodollar Rate Loan having a one year Interest Period) and the Agent shall upon the receipt of such Advance, provide to NationsBank the amount necessary to repay such Swing Line Loan or Loans (which NationsBank shall then apply to such repayment) and credit any balance of the Revolving Loan in immediately available funds to the Borrower's Account. The proceeds of such Advances shall be paid to NationsBank for application to the outstanding Swing Line Loans and the Lenders shall then be deemed to have made Revolving Loans in the amount of such Advances. The obligation of NationsBank to fund the Swing Line shall cease upon the earlier of (i) the occurrence of a Default, or (ii) the Revolving Credit Termination Date; provided that when a Default is no longer continuing NationsBank shall be obligated to provide Swing Line Loans provided all other conditions to making Loans are satisfied.

ARTICLE III

LETTERS OF CREDIT

III.1. LETTERS OF CREDIT. The Issuing Bank agrees, subject to the terms and conditions of this Agreement, upon request of the Borrower or the Borrower and any Guarantor to issue from time to time for the account of the Borrower or Guarantor Letters of Credit upon delivery to the Issuing Bank of an Application and Agreement for Letter of Credit relating thereto in form and content acceptable to the Issuing Bank; PROVIDED, that (i) the Borrower is in compliance with all the conditions to the making of Revolving Loans set forth in this Agreement; (ii) the Letter of Credit Outstandings shall not exceed the Total Letter of Credit Commitment and (iii) no Letter of Credit shall be issued if, after giving effect thereto, Letter of Credit Outstandings plus Revolving Credit Outstandings plus Swing Line Outstandings shall exceed the Total Revolving Credit Commitment. No Letter of Credit shall have an expiry date (including all rights of the Borrower or any Guarantor or any beneficiary named in such Letter of Credit to require renewal) or payment date occurring later than the earlier to occur of one year after the date of its issuance or the fifth Business Day prior to the Stated Termination Date.

III.2. REIMBURSEMENT.

(a) The Borrower hereby unconditionally agrees to pay to the Issuing Bank immediately on demand at the Principal Office all amounts required to pay all drafts (or purported drafts) drawn under the Letters of Credit (including any Letter of Credit issued for the account of any Guarantor) and all reasonable expenses incurred by the Issuing Bank in connection with draws made under the Letters of Credit (including any Letter of Credit issued for the account of any Guarantor), and in any event and without demand to place in possession of the Issuing Bank (which shall include Advances under the Revolving Credit Facility if permitted by SECTION 2.1 and Swing Line Loans if permitted by SECTION 2.13) sufficient funds to pay all debts and liabilities arising under any Letter of Credit (including any Letter of Credit issued for the account of any Guarantor). The Issuing Bank agrees to give the Borrower prompt notice of any request for a draw under a Letter of Credit. The Issuing Bank may charge any account the Borrower may have with it for any and all amounts the Issuing Bank pays under a Letter of Credit, plus charges and reasonable expenses as from time to time agreed to by the Issuing Bank and the Borrower; provided that to the extent permitted by SECTION 2.1(C)(IV) and SECTION 2.13, amounts shall be paid pursuant to Advances under the Revolving Credit Facility or, if the Borrower shall elect, by Swing Line Loans. The Borrower agrees to pay the Issuing Bank interest on any Reimbursement Obligations not paid when due hereunder at the Base Rate plus two percent (2.0%), or the maximum rate permitted by applicable law, if lower, such rate to be calculated on the basis of a year of 360 days for actual days elapsed.

(b) In accordance with the provisions of SECTION 2.1(C), the Issuing Bank shall notify the Agent of any drawing under any Letter of Credit promptly following the receipt by the Issuing Bank of such drawing.

(c) Each Lender (other than the Issuing Bank) shall automatically acquire on the date of issuance thereof, a Participation in the liability of the Issuing Bank in respect of each Letter of Credit in an amount equal to such Lender's Applicable Commitment Percentage of such liability, and to the extent that the Borrower is obligated to pay the Issuing Bank under SECTION 3.2(A), each Lender (other than the Issuing Bank) thereby shall absolutely, unconditionally and irrevocably assume, and shall be unconditionally obligated to pay to the Issuing Bank as hereinafter described, its Applicable Commitment Percentage of the liability of the Issuing Bank under such Letter of Credit.

(i) Each Lender (including the Issuing Bank in its capacity as a Lender) shall, subject to the terms and conditions of ARTICLE II, pay to the Agent for the account of the Issuing Bank at the Principal Office in Dollars and in immediately available funds, an amount equal to its Applicable Commitment Percentage of any drawing under a Letter of Credit, such funds to be provided in the manner described in SECTION 2.1(C)(IV).

(ii) Simultaneously with the making of each payment by a Lender to the Issuing Bank pursuant to SECTION 2.1(C)(IV)(B), such Lender shall, automatically and without any further action on the part of the Issuing Bank or such Lender, acquire a Participation in an amount equal to such payment (excluding the portion thereof constituting interest accrued prior to the date the Lender made its payment) in the related Reimbursement Obligation of the Borrower. The Reimbursement Obligations of the Borrower shall be immediately due and payable whether by Advances made in accordance with SECTION 2.1(C)(IV), Swing Line Loans made in accordance with SECTION 2.13, or otherwise.

(iii) Each Lender's obligation to make payment to the Agent for the account of the Issuing Bank pursuant to SECTION 2.1(C)(IV) and this SECTION 3.2(C), and the right of the Issuing Bank to receive the same, shall be absolute and unconditional, shall not be affected by any circumstance whatsoever and shall be made without any offset, abatement, withholding or reduction whatsoever. If any Lender is obligated to pay but does not pay amounts to the Agent for the account of the Issuing Bank in full upon such request as required by SECTION 2.1(C)(IV) or this SECTION 3.2(C), such Lender shall, on demand, pay to the Agent for the account of the Issuing Bank interest on the unpaid amount for each day during the period commencing on the date of notice given to such Lender pursuant to SECTION 2.1(C) until such Lender pays such amount to the Agent for the account of the Issuing Bank in full at the interest rate per annum for overnight borrowing by the Agent from the Federal Reserve Bank.

(iv) In the event the Lenders have acquired Participations in any Reimbursement Obligation as set forth in clause (ii) above, then at any time payment (in fully collected, immediately available funds) of such Reimbursement Obligation, in whole or in part, is received by Issuing Bank from the Borrower, Issuing Bank shall promptly pay to each Lender an amount equal to its Applicable Commitment Percentage of such payment from the Borrower.

(d) Promptly following the end of each calendar quarter, the Issuing Bank shall deliver to the Agent a notice describing the aggregate undrawn amount of all Letters of Credit at the end of such quarter. Upon the request of any Lender from time to time, the Issuing Bank shall deliver to the Agent, and the Agent shall deliver to such Lender, any other information reasonably requested by such Lender with respect to each Letter of Credit outstanding.

(e) The issuance by the Issuing Bank of each Letter of Credit shall, in addition to the conditions precedent set forth in ARTICLE V, be subject to the conditions that such Letter of Credit be in such form and contain such terms as shall be reasonably satisfactory to the Issuing Bank consistent with the then current practices and procedures of the Issuing Bank with respect to similar letters of credit, and the Borrower shall have executed and delivered such other instruments and agreements relating to such Letters of Credit as the Issuing Bank shall have reasonably requested consistent with such practices and procedures and shall not be in conflict with any of the express terms herein contained. All Letters of Credit shall be issued pursuant to and subject to the Uniform Customs and Practice for Documentary Credits, 1993 revision, International Chamber of Commerce Publication No. 500 and all subsequent amendments and revisions thereto.

(f) The Borrower agrees that Issuing Bank may, in its sole discretion, accept or pay, as complying with the terms of any Letter of Credit, any drafts or other documents otherwise in order which may be signed or issued by an administrator, executor, trustee in bankruptcy, debtor in possession, assignee for the benefit of creditors, liquidator, receiver, attorney in fact or other legal representative of a party who is authorized under such Letter of Credit to draw or issue any drafts or other documents.

(g) Without limiting the generality of the provisions of SECTION 11.9, the Borrower hereby agrees to indemnify and hold harmless the Issuing Bank, each other Lender and the Agent from and against any and all claims and damages, losses, liabilities, reasonable costs and expenses which the Issuing Bank, such other Lender or the Agent may incur (or which may be claimed against the Issuing Bank, such other Lender or the Agent) by any Person by reason of or in connection with the issuance or transfer of or payment or failure to pay under any Letter of Credit; provided that the Borrower shall not be required to indemnify the Issuing Bank, any other Lender or the Agent for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, (i) caused by the willful misconduct or gross negligence of the party to be indemnified or (ii) caused by the failure of the Issuing Bank to pay under any Letter of Credit after the presentation to it of a request for payment strictly complying with the terms and conditions of such Letter of Credit, unless such payment is prohibited by any law, regulation, court order or decree. The indemnification and hold harmless provisions of this SECTION 3.2(G) shall survive repayment of the Obligations, occurrence of the Revolving Credit Termination Date and expiration or termination of this Agreement.

(h) Without limiting Borrower's rights as set forth in SECTION 3.2(G), the obligation of the Borrower to immediately reimburse the Issuing Bank for drawings made under Letters of Credit and the Issuing Bank's right to receive such payment shall be absolute, unconditional and irrevocable, and that such obligations of the Borrower shall be performed strictly in accordance with the terms of this Agreement and such Letters of Credit and the related

Applications and Agreement for any Letter of Credit, under all circumstances whatsoever, including the following circumstances:

(i) any lack of validity or enforceability of the Letter of Credit, the obligation supported by the Letter of Credit or any other agreement or instrument relating thereto (collectively, the "Related LC Documents");

(ii) any amendment or waiver of or any consent to or departure from all or any of the Related LC Documents;

(iii) the existence of any claim, setoff, defense (other than the defense of payment in accordance with the terms of this Agreement) or other rights which the Borrower may have at any time against any beneficiary or any transferee of a Letter of Credit (or any persons or entities for whom any such beneficiary or any such transferee may be acting), the Agent, the Lenders or any other Person, whether in connection with the Loan Documents, the Related LC Documents or any unrelated transaction;

(iv) any breach of contract or other dispute between the Borrower and any beneficiary or any transferee of a Letter of Credit (or any persons or entities for whom such beneficiary or any such transferee may be acting), the Agent, the Lenders or any other Person;

(v) any draft, statement or any other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect whatsoever;

(vi) any delay, extension of time, renewal, compromise or other indulgence or modification granted or agreed to by the Agent, with or without notice to or approval by the Borrower in respect of any of Borrower's Obligations under this Agreement; or

(vii) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing.

III.3. LETTER OF CREDIT FACILITY FEES. The Borrower shall pay to the Agent, for the pro rata benefit of the Lenders based on their Applicable Commitment Percentages, a fee on the aggregate amount available to be drawn on each outstanding Letter of Credit at a rate equal to the Applicable Margin for Eurodollar Rate Loans. In addition, the Borrower shall pay to NationsBank a fee equal to one-eighth of one percent (1/8%) per annum of Letter of Credit Outstandings. Such fees shall be due with respect to each Letter of Credit quarterly in arrears on the last day of each June, September, December and March, the first such payment to be made on the first such date occurring after the date of issuance of a Letter of Credit. The fees described in this SECTION 3.3 shall be calculated on the basis of a year of 360 days for the actual number of days elapsed.

III.4. ADMINISTRATIVE FEES. The Borrower shall pay to the Issuing Bank such administrative fee and other similar fees, if any, in connection with the Letters of Credit in such amounts and at such times as the Issuing Bank and the Borrower shall agree from time to time.

ARTICLE IV

YIELD PROTECTION AND ILLEGALITY

IV.1. INCREASED COST AND REDUCED RETURN.

(a) If, after the date hereof, the adoption of any applicable law, rule, or regulation, or any change in any applicable law, rule, or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive (whether or not having the force of law) of any such governmental authority, central bank, or comparable agency:

(i) shall subject such Lender (or its Applicable Lending Office) to any tax, duty, or other charge with respect to any Eurodollar Rate Loans, its Note, or its obligation to make Eurodollar Rate Loans, or change the basis of taxation of any amounts payable to such Lender (or its Applicable Lending Office) under this Agreement or its Note in respect of any Eurodollar Rate Loans (other than taxes imposed on the overall net income of such Lender by the jurisdiction in which such Lender has its principal office or such Applicable Lending Office);

(ii) shall impose, modify, or deem applicable any reserve, special deposit, assessment, or similar requirement (other than the Reserve Requirement utilized in the determination of the Eurodollar Rate) relating to any extensions of credit or other assets of, or any deposits with or other liabilities or commitments of, such Lender (or its Applicable Lending Office), including the Revolving Credit Commitment of such Lender hereunder; or

(iii) shall impose on such Lender (or its Applicable Lending Office) or on the London interbank market any other condition affecting this Agreement or its Note or any of such extensions of credit or liabilities or commitments;

and the result of any of the foregoing is to increase the cost to such Lender (or its Applicable Lending Office) of making, Converting into, Continuing, or maintaining any Eurodollar Rate Loans or to reduce any sum received or receivable by such Lender (or its Applicable Lending Office) under this Agreement or its Note with respect to any Eurodollar Rate Loans, then the Borrower shall pay to such Lender on demand such amount or amounts as will compensate such Lender for such increased cost or reduction. If any Lender requests compensation by the Borrower under this SECTION 4.1(A), the Borrower may, by notice to such Lender (with a copy to the Agent), suspend the obligation of such Lender to make or Continue Loans of the Type with respect to which such compensation is requested, or suspend the obligation of such Lender to Convert Loans of any other Type into Loans of such Type, until the event or condition giving rise to such request ceases to be in effect (in which case the provisions of SECTION 4.4 shall be applicable); PROVIDED that such suspension shall not affect the right of such Lender to receive the compensation so requested.

(b) If, after the date hereof, any Lender shall have determined that the adoption of any applicable law, rule, or regulation regarding capital adequacy or any change therein or in the interpretation or administration thereof by any governmental authority, central bank, or comparable agency charged with the interpretation or administration thereof, or compliance by any Lender (or its Applicable Lending Office) with any request or directive regarding capital adequacy (whether or not having the force of law) of any such governmental authority, central bank, or comparable agency, has or would have the effect of reducing the rate of return on the capital of such Lender or any corporation controlling such Lender as a consequence of such Lender's obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such adoption, change, request, or directive (taking into consideration its policies with respect to capital adequacy), then from time to time upon demand the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction when such reduction occurs.

(c) Each Lender shall promptly notify the Borrower and the Agent of any event of which it has knowledge, occurring after the date hereof, which will entitle such Lender to compensation pursuant to this SECTION 4.1 and will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Lender, be otherwise disadvantageous to it. Any Lender claiming compensation under this SECTION 4.1 shall furnish to the Borrower and the Agent a statement setting forth the additional amount or amounts to be paid to it hereunder which shall be conclusive in the absence of manifest error. In determining such amount, such Lender may use any reasonable averaging and attribution methods.

4.2. LIMITATION ON TYPES OF LOANS. If on or prior to the first day of any Interest Period for any Eurodollar Rate Loan:

(a) the Agent determines (which determination shall be conclusive) that by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period; or

(b) the Required Lenders determine (which determination shall be conclusive) and notify the Agent that the Eurodollar Rate will not adequately and fairly reflect the cost to the Lenders of funding Eurodollar Rate Loans for such Interest Period;

then the Agent shall give the Borrower prompt notice thereof specifying the relevant Type of Loans and the relevant amounts or periods, and so long as such condition remains in effect, the Lenders shall be under no obligation to make additional Loans of such Type, Continue Loans of such Type, or to Convert Loans of any other Type into Loans of such Type and the Borrower shall, on the last day(s) of the then current Interest Period(s) for the outstanding Loans of the affected Type, either prepay such Loans or Convert such Loans into another Type of Loan in accordance with the terms of this Agreement.

4.3. ILLEGALITY. Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to make, maintain, or fund

Eurodollar Rate Loans hereunder, then such Lender shall promptly notify the Borrower thereof and such Lender's obligation to make or Continue Eurodollar Rate Loans and to Convert other Types of Loans into Eurodollar Rate Loans shall be suspended from the time of such notice, or, if later, the time such Loan becomes unlawful, until such time as such Lender may again make, maintain, and fund Eurodollar Rate Loans (in which case the provisions of SECTION 4.4 shall be applicable).

4.4. TREATMENT OF AFFECTED LOANS. If the obligation of any Lender to make a Eurodollar Rate Loan or to Continue, or to Convert Loans of any other Type into, Loans of a particular Type shall be suspended pursuant to SECTION 4.1 OR 4.3 hereof (Loans of such Type being herein called "Affected Loans" and such Type being herein called the "Affected Type"), such Lender's Affected Loans shall be automatically Converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for Affected Loans (or, in the case of a Conversion required by SECTION 4.3 hereof, on such earlier date as such Lender may specify to the Borrower with a copy to the Agent, but not earlier than the date such Loan becomes unlawful, in the case of a Conversion pursuant to SECTION 4.3) and, unless and until such Lender gives notice as provided below that the circumstances specified in SECTION 4.1 OR 4.3 hereof that gave rise to such Conversion no longer exist:

(a) to the extent that such Lender's Affected Loans have been so Converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Affected Loans shall be applied instead to its Base Rate Loans; and

(b) all Loans that would otherwise be made or Continued by such Lender as Loans of the Affected Type shall be made or Continued instead as Base Rate Loans, and all Loans of such Lender that would otherwise be Converted into Loans of the Affected Type shall be Converted instead into (or shall remain as) Base Rate Loans.

If such Lender gives notice to the Borrower (with a copy to the Agent) that the circumstances specified in SECTION 4.1 OR 4.3 hereof that gave rise to the Conversion of such Lender's Affected Loans pursuant to this SECTION 4.4 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Loans of the Affected Type made by other Lenders are outstanding, such Lender's Base Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Loans of the Affected Type, to the extent necessary so that, after giving effect thereto, all Loans held by the Lenders holding Loans of the Affected Type and by such Lender are held pro rata (as to principal amounts, Types, and Interest Periods) in accordance with their respective Revolving Credit Commitments.

4.5. COMPENSATION. Upon the request of any Lender, the Borrower shall pay to such Lender such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate it for any loss, cost, or expense (including loss of profits that would have been realized but for the following) incurred by it as a result of:

(a) any payment, prepayment, or Conversion of a Eurodollar Rate Loan for any reason (including, without limitation, the acceleration of the Loans pursuant to SECTION 9.1) on a date other than the last day of the Interest Period for such Loan; or

(b) any failure by the Borrower for any reason (including, without limitation, the failure of any condition precedent specified in ARTICLE V to be satisfied) to borrow, Convert, Continue, or prepay a Eurodollar Rate Loan on the date for such borrowing, Conversion, Continuation, or prepayment specified in the relevant notice of borrowing, prepayment, Continuation, or Conversion under this Agreement.

4.6. TAXES. (a) Any and all payments by the Borrower to or for the account of any Lender or the Agent hereunder or under any other Loan Document shall be made free and clear of and without deduction for any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, EXCLUDING, in the case of each Lender and the Agent, taxes imposed on its income, and franchise taxes imposed on it, by the jurisdiction under the laws of which such Lender (or its Applicable Lending Office) or the Agent (as the case may be) is organized or is located or any political subdivision thereof (all such non-excluded taxes, duties, levies, imposts, deductions, charges, withholdings, and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable under this Agreement or any other Loan Document to any Lender or the Agent, (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this SECTION 4.6) such Lender or the Agent receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions, (iii) the Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law, and (iv) the Borrower shall furnish to the Agent, at its address referred to in SECTION 11.2, the original or a certified copy of a receipt evidencing payment thereof.

(b) In addition, the Borrower agrees to pay any and all present or future stamp or documentary taxes and any other excise or property taxes or charges or similar levies which arise from any payment made under this Agreement or any other Loan Document or from the execution or delivery of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower agrees to indemnify each Lender and the Agent for the full amount of Taxes and Other Taxes (including, without limitation, any Taxes or Other Taxes imposed or asserted by any jurisdiction on amounts payable under this SECTION 4.6) paid by such Lender or the Agent (as the case may be) and any liability (including penalties, interest, and expenses) arising therefrom or with respect thereto.

(d) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Lender listed on the signature pages hereof and on or prior to the date on which it becomes a Lender in the case of each other Lender, and from time to time thereafter if requested in writing by the Borrower or the Agent (but only so long as such Lender remains lawfully able to do so), shall provide the Borrower and the Agent with (i) Internal Revenue Service Form 1001 or 4224, as appropriate, or any successor form prescribed by the Internal

Revenue Service, certifying that such Lender is entitled to benefits under an income tax treaty to which the United States is a party which reduces the rate of withholding tax on payments of interest or certifying that the income receivable pursuant to this Agreement is effectively connected with the conduct of a trade or business in the United States, (ii) Internal Revenue Service Form W-8 or W-9, as appropriate, or any successor form prescribed by the Internal Revenue Service, and (iii) any other form or certificate required by any taxing authority (including any certificate required by Sections 871(h) and 881(c) of the Internal Revenue Code), certifying that such Lender is entitled to an exemption from or a reduced rate of tax on payments pursuant to this Agreement or any of the other Loan Documents.

(e) For any period with respect to which a Lender has failed to provide the Borrower and the Agent with the appropriate form pursuant to SECTION 4.6(D) (unless such failure is due to a change in treaty, law, or regulation occurring subsequent to the date on which a form originally was required to be provided), such Lender shall not be entitled to indemnification under SECTION 4.6(A) OR 4.6(B) OR 4.6(C) with respect to Taxes imposed by the United States; PROVIDED, HOWEVER, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Taxes because of its failure to deliver a form required hereunder, the Borrower shall take such steps as such Lender shall reasonably request to assist such Lender to recover such Taxes.

(f) If the Borrower is required to pay additional amounts to or for the account of any Lender pursuant to this SECTION 4.6, then such Lender will agree to use reasonable efforts to change the jurisdiction of its Applicable Lending Office so as to eliminate or reduce any such additional payment which may thereafter accrue if such change, in the judgment of such Lender, is not otherwise disadvantageous to such Lender.

(g) Within thirty (30) days after the date of any payment of Taxes, the Borrower shall furnish to the Agent the original or a certified copy of a receipt evidencing such payment.

(h) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this SECTION 4.6 shall survive the termination of THE Revolving Credit Commitments and the payment in full of the Notes.

4.7. REPLACEMENT LENDER. The Borrower may, in its sole discretion, on 10 Business Days' prior written notice to the Agent and a Lender (except in the case of the replacement of a Lender after notice from such Lender to the Borrower pursuant to SECTION 4.3, in which case no prior notice from the Borrower is required), cause a Lender who has incurred increased costs to (and such Lender shall) assign, pursuant to SECTION 11.1, all of its rights and obligations under this Agreement to an Eligible Assignee designated by the Borrower which is willing to become a Lender for a purchase price equal to the outstanding principal amount of the Loans payable to such Lender plus any accrued but unpaid interest on such Loans, any accrued but unpaid fees with respect to such Lender's Revolving Credit Commitment and any other amount payable to such Lender under this Agreement; provided, that any expenses or other amounts which would be owing to such Lender pursuant to any indemnification provision hereof (including, if applicable, SECTION 4.5) shall be payable by the Borrower as if the Borrower had prepaid the

Loans of such Lender rather than such Lender having assigned its interest hereunder. The Borrower shall pay the applicable processing fee under SECTION 11.1.

ARTICLE V

CONDITIONS TO MAKING LOANS

V.1. CONDITIONS OF INITIAL ADVANCE. The obligation of the Lenders to make the initial Advance under the Revolving Credit Facility, and of the Issuing Bank to issue any Letter of Credit and of NationsBank to make any Swing Line Loan, is subject to the conditions precedent that:

(a) the Agent shall have received on the Closing Date, in form and substance satisfactory to the Agent and Lenders, the following:

(i) executed originals of each of this Agreement, the Notes, the initial Facility Guaranties and the other Loan Documents, together with all schedules and exhibits thereto;

(ii) the favorable written opinion or opinions with respect to the Loan Documents and the transactions contemplated thereby of Moore and Van Allen PLLC, special counsel to the Credit Parties, dated the Closing Date, addressed to the Agent and the Lenders and satisfactory to Smith Helms Mulliss & Moore, L.L.P., special counsel to the Agent, substantially in the form of EXHIBIT G;

(iii) resolutions of the boards of directors or other appropriate governing body (or of the appropriate committee thereof) of each Credit Party certified by its secretary or assistant secretary as of the Closing Date, approving and adopting the Loan Documents to be executed by such Person, and authorizing the execution and delivery thereof;

(iv) specimen signatures of officers of each Credit Party executing the Loan Documents on behalf of such Credit Party, certified by the secretary or assistant secretary of such Credit Party;

(v) certificate of the secretary or assistant secretary of each Credit Party as to the charter documents of such Credit Party;

(vi) certificate of the secretary or assistant secretary of each Credit Party as to the bylaws of such Credit Party;

(vii) certificates issued as of a recent date by the Secretaries of State of the respective jurisdictions of formation of each Credit Party as to the due existence and good standing of each Credit Party;

(viii) notice of appointment of the initial Authorized Representative(s) if any change from that previously delivered pursuant to the Existing Agreement;

(ix) certificate of an Authorized Representative dated the Closing Date demonstrating compliance with the financial covenants contained in SECTIONS 8.1(A) through 8.1(D), 8.2, 8.3 AND 8.9 as of the most recent fiscal quarter end, substantially in the form of EXHIBIT H;

(x) evidence of all insurance required by the Loan Documents;

(xi) an initial Borrowing Notice, if any, and, if elected by the Borrower, Interest Rate Selection Notice;

(xiii) certificate of an officer of the Borrower as to the Distribution Agreements delivered pursuant to SECTION 5.1(A)(XIII) of the Existing Agreement, that the Distribution Agreements remain in full force and effect, together with evidence satisfactory to the Agent that no default exists under the Distribution Agreements;

(xiv) certificate of an officer of the Borrower as to any agreements among the Borrower and any of its shareholders relating to the purchase or sale of capital stock of the Borrower (other than pursuant to the Watsco, Inc. Profit Sharing Retirement Plan & Trust, the Watsco, Inc. 1991 Stock Option Plan, the Watsco, Inc. 1983 Stock Option Plan or the Watsco, Inc. Qualified Employee Stock Purchase Plan);

(xv) evidence that all fees payable by the Borrower on the Closing Date to the Agent, NCMI and the Lenders have been paid in full;

(xvi) such other documents, instruments, certificates and opinions as the Agent or any Lender may reasonably request on or prior to the Closing Date in connection with the consummation of the transactions contemplated hereby; and

(b) In the good faith judgment of the Agent and the Lenders:

(i) there shall not have occurred or become known to the Agent or the Lenders any event, condition, situation or status since the date of the information contained in the Prospectus that has had or could reasonably be expected to result in a Material Adverse Effect;

(ii) no litigation, action, suit, investigation or other arbitral, administrative or judicial proceeding shall be pending or threatened which could reasonably be likely to result in a Material Adverse Effect; and

(iii) the Borrower and its Subsidiaries shall have received all approvals, consents and waivers, and shall have made or given all necessary filings and notices as shall be required to consummate the transactions contemplated hereby without the occurrence of any default under, conflict with or violation of (A) any applicable law, rule, regulation, order or decree of any Governmental Authority or arbitral authority or (B) any agreement, document or instrument to which any of the Borrower or any Subsidiary is a party or by which any of them or their properties is bound.

V.2. CONDITIONS OF LOANS AND LETTERS OF CREDIT. The obligations of the Lenders to make any Loans hereunder and the Issuing Bank to issue Letters of Credit and NationsBank to make Swing Line Loans on or subsequent to the Closing Date are subject to the satisfaction of the following conditions:

(a) the Agent, or NationsBank in the case of Swing Line Loans, shall have received a Borrowing Notice if required by ARTICLE II;

(b) the representations and warranties of the Borrower and the Subsidiaries set forth in ARTICLE VI and in each of the other Loan Documents shall be true and correct in all material respects on and as of the date of such Advance, Swing Line Loan or Letter of Credit issuance or renewal, with the same effect as though such representations and warranties had been made on and as of such date, except to the extent that such representations and warranties expressly relate to an earlier date and except that the financial statements referred to in SECTION 6.6(A)(I) shall be deemed to be those financial statements most recently delivered to the Agent and the Lenders pursuant to SECTION 7.1 from the date financial statements are delivered to the Agent and the Lenders in accordance with such Section.

(c) in the case of the issuance of a Letter of Credit, the Borrower shall have executed and delivered to the Issuing Bank an Application and Agreement for Letter of Credit in form and content acceptable to the Issuing Bank together with such other instruments and documents as it shall request in accordance with the terms hereof;

(d) at the time of (and after giving effect to) each Advance, Swing Line Loan or the issuance of a Letter of Credit, no Default or Event of Default specified in ARTICLE IX shall have occurred and be continuing; and

(e) immediately after giving effect to:

(i) a Revolving Loan, the aggregate principal balance of all outstanding Revolving Loans for each Lender shall not exceed such Lender's Revolving Credit Commitment;

(ii) a Letter of Credit or renewal thereof, the aggregate principal balance of all outstanding Participations in Letters of Credit and Reimbursement Obligations (or in the case of the Issuing Bank, its remaining interest after deduction of all Participations in Letters of Credit and Reimbursement Obligations of other Lenders) (x) for each Lender shall not exceed such Lender's Letter of Credit Commitment or (Y) for all Lenders in the aggregate shall not exceed the Total Letter of Credit Commitment;

(iii) a Swing Line Loan, the Swing Line Outstandings shall not exceed \$15,000,000; and

(iv) a Revolving Loan, Swing Line Loan or a Letter of Credit or renewal thereof, the sum of the Outstandings shall not exceed the Total Revolving Credit Commitment.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants with respect to itself and to its Subsidiaries (which representations and warranties shall survive the delivery of the documents mentioned herein, including the Loan Documents, and the making of Loans), that:

VI.1. ORGANIZATION AND AUTHORITY.

(a) The Borrower and each Subsidiary is a corporation duly organized and validly existing under the laws of the jurisdiction of its formation;

(b) The Borrower and each Subsidiary (x) has the requisite corporate power and authority to own its properties and assets and to carry on its business as now being conducted and as contemplated in the Loan Documents, and (y) is qualified to do business in every jurisdiction in which failure so to qualify would have a Material Adverse Effect;

(c) The Borrower has the corporate power and authority to execute, deliver and perform this Agreement and the Notes, and to borrow hereunder, and to execute, deliver and perform each of the other Loan Documents to which it is a party;

(d) Each Credit Party other than the Borrower has the corporate power and authority to execute, deliver and perform the Facility Guaranty and each of the other Loan Documents to which it is a party; and

(e) When executed and delivered, each of the Loan Documents to which the Borrower or any other Credit Party is a party will be the legal, valid and binding obligation or agreement, as the case may be, of the Borrower or such Credit Party, enforceable against the Borrower or such Credit Party in accordance with its terms, subject to the effect of any applicable bankruptcy, moratorium, insolvency, reorganization or other similar law affecting the enforceability of creditors' rights generally and to the effect of general principles of equity (whether considered in a proceeding at law or in equity);

VI.2. LOAN DOCUMENTS. The execution, delivery and performance by the Borrower and each other Credit Party of each of the Loan Documents to which it is a party:

(a) have been duly authorized by all requisite corporate action (including any required shareholder approval) of the Borrower and each other Credit Party required for the lawful execution, delivery and performance thereof;

(b) do not violate any provisions of (i) applicable law, rule or regulation, (ii) any judgment, writ, order, determination, decree or arbitral award of any Governmental Authority or arbitral authority binding on the Borrower or any Subsidiary or its properties, or (iii) the charter documents or bylaws of the Borrower or any other Credit Party;

(c) does not and will not be in conflict with, result in a breach of or constitute an event of default, or an event which, with notice or lapse of time or both, would constitute an event of default, under any contract, indenture, agreement or other instrument or document to which Borrower or any other Credit Party is a party, or by which the properties or assets of Borrower or any other Credit Party are bound; and

(d) does not and will not result in the creation or imposition of any Lien upon any of the properties or assets of Borrower or any other Credit Party;

VI.3. SOLVENCY. The Borrower and each other Credit Party is and will be Solvent after giving effect to the transactions contemplated by the Loan Documents;

VI.4. SUBSIDIARIES AND STOCKHOLDERS. The Borrower has no Subsidiaries other than those Persons listed as Subsidiaries in SCHEDULE 6.4 and additional Subsidiaries created or acquired after the Closing Date in compliance with SECTION 7.19; SCHEDULE 6.4 states as of the date hereof the organizational form of each Subsidiary, the authorized and issued capitalization of each Subsidiary listed thereon, the number of shares or other equity interests of each class of capital stock or interest issued and outstanding of each such Subsidiary and the number and/or percentage of outstanding shares or other equity interest (including options, warrants and other rights to acquire any interest) of each such class of capital stock or other equity interest owned by Borrower or by any such Subsidiary; the outstanding shares or other equity interests of each such Subsidiary have been duly authorized and validly issued and are fully paid and nonassessable; and Borrower and each such Subsidiary owns beneficially and of record all the shares and other interests it is listed as owning in SCHEDULE 6.4, free and clear of any Lien;

VI.5. OWNERSHIP INTERESTS. Borrower owns no equity investments in any Person other than the Persons listed in SCHEDULE 6.4, equity investments in Persons not constituting Subsidiaries permitted under SECTION 8.7 and additional Subsidiaries created or acquired after the Closing Date in compliance with SECTION 7.19. Borrower does not have any obligation to purchase capital stock of Rheem.

VI.6. FINANCIAL CONDITION.

(a) The Borrower has heretofore furnished to each Lender an audited consolidated balance sheet of the Borrower and its Subsidiaries as at December 31, 1996 and the notes thereto and the related consolidated statements of income, shareholders' equity and cash flows for the Fiscal Year then ended as examined and certified by Arthur Andersen LLP, and unaudited consolidated interim financial statements of the Borrower and its Subsidiaries consisting of a consolidated balance sheet and related consolidated statements of income, shareholders' equity and cash flows, in each case with the notes related thereto, for and as of the end of the three month period ending March 31, 1997. Except as set forth therein, such financial statements (including the notes thereto) present fairly the consolidated financial condition of the Borrower and its Subsidiaries as of the end of such Fiscal Year and three month period and results of their consolidated operations and the changes in its consolidated stockholders' equity for the Fiscal Year and interim period then ended, all in conformity with GAAP applied on a Consistent Basis, subject however, in the case of unaudited interim statements to year end audit adjustments;

(b) since March 31, 1997 there has been no material adverse change in the condition, financial or otherwise, of the Borrower and its Subsidiaries taken as a whole or in the businesses, properties, performance, prospects or operations of the Borrower and its Subsidiaries taken as a whole, nor have such businesses or properties been materially adversely affected (taken as a whole) as a result of any fire, explosion, earthquake, accident, strike, lockout, combination of workers, flood, embargo or act of God; and

(c) except as set forth in the Prospectus, the financial statements referred to in SECTION 6.6(A), or SCHEDULE 6.6 or permitted by SECTION 8.5, neither Borrower nor any Subsidiary has incurred, other than in the ordinary course of business or in connection with Acquisitions permitted under SECTION 8.2, any Indebtedness, Contingent Obligation or other commitment or liability which remains outstanding or unsatisfied, which is material to Borrower and its Subsidiaries taken as a whole;

VI.7. TITLE TO PROPERTIES. The Borrower and each of its Subsidiaries and each other Credit Party has good and marketable title to all its real and personal properties, subject to no transfer restrictions or Liens of any kind, except for the transfer restrictions and Liens described in SCHEDULE 6.7 and Liens permitted by SECTION 8.4;

VI.8. TAXES. Except as set forth in SCHEDULE 6.8, the Borrower and each of its Subsidiaries has filed or caused to be filed all federal, state and local tax returns which are required to be filed by it and, except for taxes and assessments being contested in good faith by appropriate proceedings diligently conducted and against which reserves reflected in the financial statements described in SECTION 6.6(A) and satisfactory to the Borrower's independent certified public accountants have been established, have paid or caused to be paid all taxes as shown on said returns or on any assessment received by it, to the extent that such taxes have become due;

VI.9. OTHER AGREEMENTS. Neither the Borrower nor any Subsidiary is

(a) a party to or subject to any judgment, order, decree, agreement, lease or instrument, or subject to other restrictions, which individually or in the aggregate could reasonably be expected to have a Material Adverse Effect; or

(b) in default in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained in any agreement or instrument to which the Borrower or any Subsidiary is a party, which default has, or if not remedied within any applicable grace period could reasonably be expected to have, a Material Adverse Effect;

VI.10. LITIGATION. Except as set forth in SCHEDULE 6.10, there is no action, suit, investigation or proceeding at law or in equity or by or before any governmental instrumentality or agency or arbitral body pending, or, to the best knowledge of the Borrower, threatened by or against the Borrower or any Subsidiary or affecting the Borrower or any Subsidiary or any properties or rights of the Borrower or any Subsidiary, which if adversely determined could reasonably be expected to have a Material Adverse Effect;

VI.11. MARGIN STOCK. The proceeds of the borrowings made hereunder will be used by the Borrower only for the purposes expressly authorized herein. None of such proceeds will be used, directly or indirectly, for the purpose of purchasing or carrying any margin stock or for the purpose of reducing or retiring any Indebtedness which was originally incurred to purchase or carry margin stock or for any other purpose which might constitute any of the Loans under this Agreement a "purpose credit" within the meaning of said Regulation U or Regulation X (12 C.F.R. Part 224) of the Board. Neither the Borrower nor any agent acting in its behalf has taken or will take any action which might cause this Agreement or any of the documents or instruments delivered pursuant hereto to violate any regulation of the Board or to violate the Securities Exchange Act of 1934, as amended, or the Securities Act of 1933, as amended, or any state securities laws, in each case as in effect on the date hereof;

VI.12. INVESTMENT COMPANY. Neither the Borrower nor any other Credit Party is an "investment company," or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended (15 U.S.C. ss. 80a-1, et seq.). The application of the proceeds of the Loans and repayment thereof by the Borrower and the performance by the Borrower and the other Credit Parties of the transactions contemplated by the Loan Documents will not violate any provision of said Act, or any rule, regulation or order issued by the Securities and Exchange Commission thereunder, in each case as in effect on the date hereof;

VI.13. PATENTS, ETC. The Borrower and each Subsidiary owns or has the right to use, under valid license agreements or otherwise, all material patents, licenses, franchises, trademarks, trademark rights, trade names, trade name rights, trade secrets and copyrights necessary to or used in the conduct of its businesses as now conducted and as contemplated by

the Loan Documents, without known conflict with any patent, license, franchise, trademark, trade secret, trade name, copyright, other proprietary right of any other Person;

VI.14. NO UNTRUE STATEMENT. Neither (a) this Agreement nor any other Loan Document or certificate or document executed and delivered by or on behalf of the Borrower or any other Credit Party in accordance with or pursuant to any Loan Document nor (b) any information provided to the Agent in connection with the negotiation or preparation of the Loan Documents, including, without limitation, the Prospectus, contains any misrepresentation or untrue statement of material fact or omits to state a material fact necessary, in light of the circumstance under which it was made, in order to make any such warranty, representation or statement contained therein not misleading;

VI.15. NO CONSENTS, ETC. Neither the respective businesses or properties of the Borrower or any Subsidiary, nor any relationship between the Borrower or any Subsidiary and any other Person, nor any circumstance in connection with the execution, delivery and performance of the Loan Documents and the transactions contemplated thereby, is such as to require a consent, approval or authorization of, or filing, registration or qualification with, any Governmental Authority or any other Person on the part of the Borrower or any Subsidiary as a condition to the execution, delivery and performance of, or consummation of the transactions contemplated by the Loan Documents, which, if not obtained or effected, would or could be reasonably likely to have a Material Adverse Effect, or if so, such consent, approval, authorization, filing, registration or qualification has been duly obtained or effected, as the case may be;

VI.16. EMPLOYEE BENEFIT PLANS.

(a) The Borrower and each ERISA Affiliate is in compliance with all applicable provisions of ERISA and the regulations and published interpretations thereunder and in compliance with all Foreign Benefit Laws with respect to all Employee Benefit Plans except for any required amendments for which the remedial amendment period as defined in Section 401(b) of the Code has not yet expired and except for circumstances where the failure to comply could not reasonably be expected to have a Material Adverse Effect. Each Employee Benefit Plan that is intended to be qualified under Section 401(a) of the Code has been determined by the Internal Revenue Service to be so qualified, and each trust related to such plan has been determined to be exempt under Section 501(a) of the Code. No material liability has been incurred by the Borrower or any ERISA Affiliate which remains unsatisfied for any taxes or penalties with respect to any Employee Benefit Plan or any Multiemployer Plan;

(b) Neither the Borrower nor any ERISA Affiliate has (i) engaged in a nonexempt prohibited transaction described in Section 4975 of the Code or Section 406 of ERISA affecting any of the Employee Benefit Plans or the trusts created thereunder which could subject any such Employee Benefit Plan or trust to a material tax or penalty on prohibited transactions imposed under Internal Revenue Code Section 4975 or

ERISA, (ii) incurred any accumulated funding deficiency with respect to any Employee Benefit Plan, whether or not waived, or any other liability to the PBGC which remains outstanding, other than the payment of premiums and there are no premium payments which are due and unpaid which could reasonably be expected to have a Material Adverse Effect, (iii) failed to make a required contribution or payment to a Multiemployer Plan, or (iv) failed to make a required installment or other required payment under Section 412 of the Code, Section 302 of ERISA or the terms of such Employee Benefit Plan;

(c) No Termination Event has occurred or is reasonably expected to occur with respect to any Pension Plan or Multiemployer Plan, and neither the Borrower nor any ERISA Affiliate has incurred any unpaid withdrawal liability with respect to any Multiemployer Plan;

(d) The present value of all vested accrued benefits under each Employee Benefit Plan which is subject to Title IV of ERISA, did not, as of the most recent valuation date for each such plan, exceed the then current value of the assets of such Employee Benefit Plan allocable to such benefits;

(e) To the best of the Borrower's knowledge, after due inquiry, each Employee Benefit Plan subject to Title IV of ERISA, maintained by the Borrower or any ERISA Affiliate, has been administered in accordance with its terms in all respects and is in compliance in all respects with all applicable requirements of ERISA and other applicable laws, regulations and rules, except for circumstances where the failure to comply or accord could not reasonably be expected to have a Material Adverse Effect;

(f) The consummation of the Loans and the issuance of the Letters of Credit provided for herein will not involve any prohibited transaction under ERISA which is not subject to a statutory or administrative exemption; and

(g) No material proceeding, claim, lawsuit and/or investigation exists or, to the best knowledge of the Borrower after due inquiry, is threatened concerning or involving any Employee Benefit Plan;

VI.17. NO DEFAULT. As of the date hereof, there does not exist any Default or Event of Default hereunder;

VI.18. HAZARDOUS MATERIALS. The Borrower and each Subsidiary is in compliance with all applicable Environmental Laws in all material respects. Neither the Borrower nor any Subsidiary has been notified of any action, suit, proceeding or investigation which, and neither the Borrower nor any Subsidiary is aware of any facts which, (i) calls into question, or could reasonably be expected to call into question, compliance by the Borrower or any Subsidiary with any Environmental Laws, (ii) which seeks, or could reasonably be expected to form the basis of a meritorious proceeding, to suspend, revoke or terminate any license, permit or approval

necessary for the generation, handling, storage, treatment or disposal of any Hazardous Material, or (iii) seeks to cause, or could reasonably be expected to form the basis of a meritorious proceeding to cause, any property of the Borrower or any Subsidiary to be subject to any restrictions on ownership, use, occupancy or transferability under any Environmental Law to which the Borrower or such Subsidiary is not currently subject;

VI.19. EMPLOYMENT MATTERS. (a) Except as set forth in SCHEDULE 6.19, none of the employees of the Borrower or any Subsidiary is subject to any collective bargaining agreement and there are no strikes, work stoppages, election or decertification petitions or proceedings, unfair labor charges, equal opportunity proceedings, or other material labor/employee related controversies or proceedings pending or, to the best knowledge of the Borrower, threatened against the Borrower or any Subsidiary or between the Borrower or any Subsidiary and any of its employees, other than employee grievances arising in the ordinary course of business which could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect; and

(b) Except to the extent a failure to maintain compliance would not have a Material Adverse Effect, the Borrower and each Subsidiary is in compliance in all respects with all applicable laws, rules and regulations pertaining to labor or employment matters, including without limitation those pertaining to wages, hours, occupational safety and taxation and there is neither pending or threatened any litigation, administrative proceeding nor, to the knowledge of the Borrower, any investigation, in respect of such matters which, if decided adversely, could or would reasonably be likely, individually or in the aggregate, to have a Material Adverse Effect; and

VI.20. RICO. Neither the Borrower nor any Subsidiary is engaged in or has engaged in any course of conduct that could or would reasonably be expected to subject any of their respective properties to any Lien, seizure or other forfeiture under any criminal law, racketeer influenced and corrupt organizations law (civil or criminal) or other similar laws.

ARTICLE VII

AFFIRMATIVE COVENANTS

Until the Facility Termination Date, unless the Required Lenders shall otherwise consent in writing, the Borrower will, and where applicable will cause each Subsidiary to:

VII.1. FINANCIAL REPORTS, ETC. (a) As soon as practical and in any event within 90 days after the end of each Fiscal Year of the Borrower, deliver or cause to be delivered to the Agent (i) consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such Fiscal Year, and the notes thereto, and the related consolidated statements of income, shareholders' equity and cash flows, and the respective notes thereto, for such Fiscal Year, setting forth comparative financial statements for the preceding Fiscal Year, all prepared in accordance with GAAP applied on a Consistent Basis and containing, with respect to the consolidated financial statements, opinions of Arthur Andersen LLP, or other such independent certified public accountants selected by the Borrower and acceptable to the Agent, which are unqualified as to the scope of the audit performed and as to the "going concern" status of the Borrower and without any exception not acceptable to the Lenders, and (ii) a certificate of an Authorized Representative demonstrating compliance with SECTIONS 8.1(A) through 8.1(D), 8.2, 8.3 and 8.9, which certificate shall be in the form of EXHIBIT H;

(b) as soon as practical and in any event within 45 days after the end of each fiscal quarter (except the last fiscal quarter of the Fiscal Year), deliver to the Agent (i) consolidated balance sheets of the Borrower and its Subsidiaries as at the end of such fiscal quarter, and the related consolidated statements of income, shareholders' equity and cash flows for such fiscal quarter and for the period from the beginning of the then current Fiscal Year through the end of such reporting period, and accompanied by a certificate of an Authorized Representative to the effect that such financial statements present fairly the financial position of the Borrower and its Subsidiaries as of the end of such fiscal period and the results of their operations and the changes in their financial position for such fiscal period, in conformity with the standards set forth in SECTION 6.6(A) with respect to interim financial statements, and (ii) a certificate of an Authorized Representative containing computations for such quarter comparable to that required pursuant to SECTION 7.1(A)(II);

(c) promptly upon their becoming available to the Borrower, the Borrower shall deliver to the Agent a copy of (i) all regular or special reports or effective registration statements which Borrower or any Subsidiary shall file with the Securities and Exchange Commission (or any successor thereto) or any securities exchange, (ii) any proxy statement distributed by the Borrower or any Subsidiary to its shareholders, bondholders or the financial community in general, and (iii) any management letters submitted to the Borrower or any Subsidiary by independent accountants in connection with the annual audit of the Borrower or any Subsidiary; and

(d) promptly, from time to time, deliver or cause to be delivered to the Agent such other information regarding Borrower's and any Subsidiary's operations, business affairs and financial condition as the Agent or any Lender may reasonably request;

The Agent and the Lenders are hereby authorized to deliver a copy of any such financial or other information delivered hereunder to the Lenders (or any affiliate of any Lender) or to the Agent, to any Governmental Authority having jurisdiction over the Agent or any of the Lenders pursuant to any written request therefor or in the ordinary course of examination of loan files, or, subject to Section 11.14 to any other Person who shall acquire or consider the assignment of, or acquisition of any participation interest in, any Obligation permitted by this Agreement.

VII.2. MAINTAIN PROPERTIES. Maintain all properties necessary to its operations in good working order and condition, make all needed repairs, replacements and renewals to such properties, and maintain free from Liens all trademarks, trade names, patents, copyrights, trade secrets, know-how, and other intellectual property and proprietary information (or adequate licenses thereto), in each case as are reasonably necessary to conduct its business as currently conducted or as contemplated hereby, all in accordance with customary and prudent business practices.

VII.3. EXISTENCE, QUALIFICATION, ETC. Except as otherwise expressly permitted under SECTION 8.8, do or cause to be done all things necessary to preserve and keep in full force and effect its existence and all material rights and franchises, and maintain its license or qualification to do business as a foreign corporation and good standing in each jurisdiction in which its ownership or lease of property or the nature of its business makes such license or qualification necessary.

VII.4. REGULATIONS AND TAXES. Comply in all material respects with or contest in good faith all statutes and governmental regulations and pay all taxes, assessments, governmental charges, claims for labor, supplies, rent and any other obligation which, if unpaid, would become a Lien against any of its properties except liabilities being contested in good faith by appropriate proceedings diligently conducted and against which adequate reserves acceptable to the Borrower's independent certified public accountants have been established unless and until any Lien resulting therefrom attaches to any of its property and becomes enforceable against its creditors.

VII.5. INSURANCE. (a) Keep all of its insurable properties adequately insured at all times with responsible insurance carriers against loss or damage by fire and other hazards to the extent and in the manner as are customarily insured against by similar businesses owning similarly situated properties, (b) maintain general public liability insurance at all times with responsible insurance carriers licensed in the state where the property is located against liability on account of damage to persons and property, and (c) maintain insurance under all applicable workers' compensation laws (or in the alternative, maintain required reserves if self-insured for workers' compensation purposes) and against loss by reason of business interruption such policies of insurance to have such limits, deductibles, exclusions, co-insurance and other provisions

providing no less coverages than that specified in SCHEDULE 7.5, such insurance policies to be in form reasonably satisfactory to the Agent. Each of the policies of insurance described in this SECTION 7.5 shall provide that the insurer shall give the Agent not less than thirty (30) days' prior written notice before any such policy shall be terminated, lapse or be altered in any manner.

VII.6. TRUE BOOKS. Keep true books of record and account in which full, true and correct entries will be made of all of its dealings and transactions in accordance with GAAP, and set up on its books such reserves as may be required by GAAP consistently applied with respect to doubtful accounts and all taxes, assessments, charges, levies and claims and with respect to its business in general, and include such reserves in interim as well as year-end financial statements.

VII.7. RIGHT OF INSPECTION. Permit any Person designated by any Lender or the Agent to visit and inspect any of the properties, corporate books and financial reports of the Borrower or any Subsidiary and to discuss its affairs, finances and accounts with its principal officers and independent certified public accountants, all at reasonable times, at reasonable intervals and with reasonable prior notice to the Borrower.

VII.8. OBSERVE ALL LAWS. Conform to and duly observe in all material respects all laws, rules and regulations and all other valid requirements of any Governmental Authority with respect to the conduct of its business.

VII.9. GOVERNMENTAL LICENSES. Obtain and maintain all licenses, permits, certifications and approvals of all applicable Governmental Authorities as are required for the conduct of its business as currently conducted and as contemplated by the Loan Documents.

VII.10. COVENANTS EXTENDING TO OTHER PERSONS. Cause each of its Subsidiaries to do with respect to itself, its business and its assets, each of the things required of the Borrower in SECTIONS 7.2 through 7.9, and 7.18 inclusive.

VII.11. OFFICER'S KNOWLEDGE OF DEFAULT. Upon the Chief Executive Officer, President, Vice President or Treasurer of the Borrower obtaining knowledge of any Default or Event of Default hereunder or under any other obligation of the Borrower or any other Credit Party to any Lender, cause such officer or an Authorized Representative to promptly notify the Agent of the nature thereof, the period of existence thereof, and what action the Borrower or other Credit Party proposes to take with respect thereto.

VII.12. SUITS OR OTHER PROCEEDINGS. Upon the Chief Executive Officer, President, Vice President or Treasurer of the Borrower obtaining knowledge of any litigation or other proceedings being instituted by any Person against the Borrower or any Subsidiary or other Credit Party, or any attachment, levy, execution or other process being instituted against any assets of the Borrower or any Subsidiary or other Credit Party, making a claim or claims in an aggregate amount greater than \$1,000,000 not otherwise covered by insurance, promptly deliver

to the Agent written notice thereof stating the nature and status of such litigation, dispute, proceeding, levy, execution or other process.

VII.13. NOTICE OF DISCHARGE OF HAZARDOUS MATERIAL OR ENVIRONMENTAL COMPLAINT. Promptly provide to the Agent true, accurate and complete copies of any and all notices, complaints, orders, directives, claims, or citations received by the Borrower or any Subsidiary and of which the Chief Executive Officer, President, Vice President or Treasurer is aware relating to any (a) violation or alleged violation by the Borrower or any Subsidiary of any applicable Environmental Law; (b) release or threatened release by the Borrower or any Subsidiary, or at any facility or property owned or leased or operated by the Borrower or any Subsidiary, of any Hazardous Material, except where occurring legally; or (c) liability or alleged liability of the Borrower or any Subsidiary for the costs of cleaning up, removing, remediating or responding to a release of Hazardous Materials.

VII.14. ENVIRONMENTAL COMPLIANCE. If the Borrower or any Subsidiary shall receive any letter, notice, complaint, order, directive, claim or citation alleging that the Borrower or any Subsidiary has violated any Environmental Law or is liable for the costs of cleaning up, removing, remediating or responding to a release of Hazardous Materials, and Borrower or such Subsidiary is not contesting such letter, notice, complaint, order, directive, claim or citation by appropriate proceedings, the Borrower shall, within the time period permitted by the applicable Environmental Law or the Governmental Authority responsible for enforcing such Environmental Law, remove or remedy, or cause the applicable Subsidiary to remove or remedy, such violation or release or satisfy such liability as required by applicable Environmental Law.

VII.15. INDEMNIFICATION. Without limiting the generality of SECTION 11.9, the Borrower hereby agrees to indemnify and hold the Agent, the Lenders and NCMI, and their respective officers, directors, employees and agents, harmless from and against any and all claims, losses, penalties, liabilities, damages and expenses (including reasonable assessment and cleanup costs and reasonable attorneys' fees and disbursements) arising directly or indirectly from, out of or by reason of (a) the violation of any Environmental Law by the Borrower or any Subsidiary or with respect to any property owned, operated or leased by the Borrower or any Subsidiary or (b) the handling, storage, treatment, emission or disposal of any Hazardous Materials by or on behalf of the Borrower or any Subsidiary or on or with respect to property owned or leased or operated by the Borrower or any Subsidiary. The provisions of this SECTION 7.15 shall survive for a period of one year after the Facility Termination Date and expiration or termination of this Agreement.

VII.16. FURTHER ASSURANCES. At the Borrower's cost and expense, upon request of the Agent, duly execute and deliver or cause to be duly executed and delivered, to the Agent such further instruments, documents, and certificates, and do and cause to be done such further acts that may be reasonably necessary or advisable in the reasonable opinion of the Agent to carry out more effectively the provisions and purposes of this Agreement and the other Loan Documents.

VII.17. EMPLOYEE BENEFIT PLANS.

(a) With reasonable promptness, and in any event within thirty (30) days thereof, give notice to the Agent of (a) the establishment of any new Pension Plan (which notice shall include a copy of such plan), (b) the commencement of contributions to any Employee Benefit Plan to which the Borrower or any of its ERISA Affiliates was not previously contributing, (c) any material increase in the benefits of any existing Employee Benefit Plan, (d) each funding waiver request filed with respect to any Employee Benefit Plan and all communications received or sent by the Borrower or any ERISA Affiliate with respect to such request and (e) the failure of the Borrower or any ERISA Affiliate to make a required installment or payment under Section 302 of ERISA or Section 412 of the Code by the due date;

(b) Promptly and in any event within fifteen (15) days of becoming aware of the occurrence or forthcoming occurrence of any (a) Termination Event or (b) nonexempt "prohibited transaction," as such term is defined in Section 406 of ERISA or Section 4975 of the Code, in connection with any Pension Plan or any trust created thereunder, deliver to the Agent a notice specifying the nature thereof, what action the Borrower or any ERISA Affiliate has taken, is taking or proposes to take with respect thereto and, when known, any action taken or threatened by the Internal Revenue Service, the Department of Labor or the PBGC with respect thereto; and

(c) With reasonable promptness but in any event within fifteen (15) days for purposes of clauses (a), (b) and (c), deliver to the Agent copies of (a) any unfavorable determination letter from the Internal Revenue Service regarding the qualification of an Employee Benefit Plan under Section 401(a) of the Code, (b) all notices received by the Borrower or any ERISA Affiliate of the PBGC's intent to terminate any Pension Plan or to have a trustee appointed to administer any Pension Plan, and (c) all notices received by the Borrower or any ERISA Affiliate from a Multiemployer Plan sponsor concerning the imposition or amount of withdrawal liability pursuant to Section 4202 of ERISA. The Borrower will notify the Agent in writing within fifteen (15) days of the Borrower or any ERISA Affiliate obtaining knowledge or reason to know that the Borrower or any ERISA Affiliate has filed or intends to file a notice of intent to terminate any Pension Plan under a distress termination within the meaning of Section 4041(c) of ERISA.

VII.18. CONTINUED OPERATIONS. Continue at all times to conduct its business in all material respects and engage principally in the same line or lines of business substantially as heretofore conducted.

VII.19. NEW SUBSIDIARIES. As soon as practicable but in any event within thirty (30) days of any acquisition or substantive beginning of operations for any newly created Subsidiary, cause to be delivered to the Agent for the benefit of the Lenders each of the following:

(i) a Facility Guaranty executed by such Subsidiary substantially in the form of EXHIBIT I;

(ii) an opinion of counsel to the Subsidiary dated as of the date of delivery of the Facility Guaranty provided for in this SECTION 7.19 and addressed to the Agent and the Lenders, in form and substance reasonably acceptable to the Agent (which opinion may include assumptions and qualifications of similar effect to those contained in the opinions of counsel delivered pursuant to SECTION 5.1(A)), to the effect that:

(A) such Subsidiary is duly incorporated (or in the case of a recently formed subsidiary, duly organized) validly existing and in good standing in the jurisdiction of its formation, has the requisite power and authority to own its properties and conduct its business as then owned and then conducted;

(B) the execution, delivery and performance of the Facility Guaranty described in this SECTION 7.19 to which such Subsidiary is a signatory has been duly authorized by all requisite corporate or partnership action (including any required shareholder or partner approval), such agreement has been duly executed and delivered and constitutes the valid and binding agreement of such Subsidiary, enforceable against such Subsidiary in accordance with its terms, subject to the effect of any applicable bankruptcy, moratorium, insolvency, reorganization or other similar law affecting the enforceability of creditors' rights generally and to the effect of general principles of equity (whether considered in a proceeding at law or in equity); and

(C) neither the execution or delivery of, nor performance by such Subsidiary of its obligations under, the Facility Guaranty described in this SECTION 7.19 to which such Subsidiary is a signatory (a) does or will conflict with, violate or constitute a breach of (i) the charter or partnership agreement or bylaws of such Subsidiary, (ii) any laws, rules or regulations applicable to such Subsidiary, (b) requires the prior consent of, notice to, license from or filing with any Governmental Authority which has not been duly obtained or made on or prior to the date hereof.

(iii) current copies of the charter documents, including partnership agreements and certificate of limited partnership, if applicable, and bylaws of such Subsidiary, minutes of duly called and conducted meetings (or duly effected consent actions) of the Board of Directors, partners, or appropriate committees thereof (and, if required by such charter documents, bylaws or by applicable law, of the shareholders) of such Subsidiary authorizing the actions and the execution and delivery of documents described in this SECTION 7.19 and specimen signatures of the officers of such Subsidiary authorized to execute and deliver such documents, all as certified by the secretary or an assistance secretary or comparable representative of such Subsidiary.

VII.20. RHEEM RELATIONSHIP. Promptly upon the Chief Executive Office, President, Vice President or Treasurer of the Borrower becoming aware thereof, give written notice to the Agent of the occurrence of each of the following:

- (i) any request for a material amendment, modification or waiver of any of the terms contained in any of the Distribution Agreements, which notice shall be accompanied by a copy (if available) or summary of the terms of the proposed amendment, modification or waiver;
- (ii) written notice from Rheem of any default or event of default, or the assertion by any party thereto of the occurrence of a default or event of default, under the Distribution Agreements, which notice shall be accompanied by a copy of any notice of default sent or received in connection therewith, a summary of the circumstances relating thereto, and an explanation of what action, if any, any Credit Party intends to take with respect thereto; and
- (iii) the assertion by any Person, whether in a proceeding before a Governmental Authority or otherwise, that any Distribution Agreement is void, invalid, unenforceable or subject to rejection, avoidance, rescission or reformation in any material respect, which notice shall be accompanied by a summary of the circumstances relating to such assertion together, if applicable, with copies of any pleadings or other submissions made to any Governmental Authority relating to such assertion.

ARTICLE VIII

NEGATIVE COVENANTS

Until the Facility Termination Date, unless the Required Lenders shall otherwise consent in writing, the Borrower will not, nor will it permit any Subsidiary to:

VIII.1. FINANCIAL COVENANTS.

(a) CONSOLIDATED NET WORTH. Permit Consolidated Net Worth to be less than (i) \$185,000,000 at the Closing Date and (ii) as at the last day of each succeeding fiscal quarter of the Borrower and until (but excluding) the last day of the next following fiscal quarter of the Borrower, the sum of (A) the amount of Consolidated Net Worth required to be maintained pursuant to this SECTION 8.1(A) as at the end of the immediately preceding fiscal quarter, plus (B) 50% of Consolidated Net Income (with no reduction for net losses during any period) for the fiscal quarter of the Borrower ending on such day (adjusting the computation of "Consolidated Net Income" for certain items, as provided for in the definition of "Consolidated Net Income"), plus (C) 100% of the aggregate Net Proceeds of the issuance of equity securities or other capital investments less (D) an amount not exceeding \$15,000,000 resulting from the sale or distribution of Borrower's ownership interest in Dunhill.

(b) LEVERAGE RATIO. Permit the ratio of Consolidated Indebtedness to Consolidated Total Capitalization as at the end of any fiscal quarter of the Borrower to be greater than 0.625 to 1.00.

(c) CONSOLIDATED DEBT COVERAGE RATIO. Permit as at the end of any fiscal quarter of the Borrower during the respective periods set forth below the Consolidated Debt Coverage Ratio to be greater than that set forth opposite each such period:

PERIOD -----	DEBT COVERAGE RATIO MUST ----- NOT EXCEED -----
Closing Date through December 31, 1997	4.00 to 1.00
January 1, 1998 through December 31, 1999	3.75 to 1.00
From January 1, 2000 and thereafter	3.50 to 1.00

(d) CONSOLIDATED INTEREST COVERAGE RATIO. Permit the Consolidated Interest Coverage Ratio as at the end of any Four-Quarter Period to be less than 2.25 to 1.00.

VIII.2. ACQUISITIONS. Enter into any agreement, contract, binding commitment or other binding arrangement providing for any Acquisition, or solicit the tender of securities or proxies in respect thereof in order to effect any Acquisition, unless (i) the Person to be (or whose assets are to be) acquired does not oppose such Acquisition and the line or lines of business of the Person to be acquired are substantially the same as the Major Subsidiaries and their lines of business, (ii) if the Costs of Acquisition exceeds \$10,000,000, an Authorized Representative shall have furnished the Agent with a certificate to the effect that no Default or Event of Default shall have occurred and be continuing either immediately prior to or immediately after giving effect to such Acquisition and, the Borrower shall have furnished to the Agent (A) pro forma historical financial statements as of the end of the most recently completed fiscal period of the Borrower (whether quarterly or year end) giving effect to such Acquisition and assuming that any Indebtedness incurred to effect such Acquisition shall be deemed to have been outstanding during the Four-Quarter Period preceding such Acquisition and to have borne a rate of interest during such period equal to that rate in existence at the date of determination and (B) a certificate in the form of EXHIBIT H prepared on a historical pro forma basis giving effect to such Acquisition as of the most recent fiscal quarter of the Borrower then ended, which certificate shall demonstrate that no Default or Event of Default would exist immediately after giving effect thereto, and (iii) the Person acquired shall be a Subsidiary, or be merged into or with the Borrower or one of its Subsidiaries, immediately upon consummation of the Acquisition (or if assets are being acquired, the acquiror shall be the Borrower or one of its Subsidiaries).

VIII.3. CAPITAL EXPENDITURES. Make or become committed to make Capital Expenditures, which exceed in the aggregate in any Fiscal Year of the Borrower (on a noncumulative basis, with the effect that amounts not expended in any Fiscal Year may not be carried forward to a subsequent period), \$10,000,000.

VIII.4. LIENS. Incur, create or permit to exist any Lien, charge or other encumbrance of any nature whatsoever with respect to any property or assets now owned or hereafter acquired by the Borrower or any Subsidiary, other than

(a) Liens existing as of the date hereof and as set forth in SCHEDULE 6.7;

(b) Liens imposed by law for taxes, assessments or charges of any Governmental Authority for claims not yet due or which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves or other appropriate provisions are being maintained in accordance with GAAP and which Liens do not constitute a prior or senior lien;

(c) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and other Liens imposed by law or created in the ordinary course of business and in existence less than 120 days from the date of creation thereof for amounts not yet due or which are being contested in good faith by appropriate proceedings diligently conducted and with respect to which adequate reserves or other appropriate

provisions are being maintained in accordance with GAAP and which Liens do not constitute a prior or senior lien;

(d) Liens incurred or deposits made in the ordinary course of business (including, without limitation, surety bonds and appeal bonds) in connection with workers' compensation, taxes (and with respect to Liens, to the extent permitted under SECTION 7.4), unemployment insurance and other types of social security benefits or to secure the performance of tenders, bids, leases, contracts (other than for the repayment of Indebtedness), statutory obligations and other similar obligations or arising as a result of progress payments under government contracts;

(e) easements (including reciprocal easement agreements and utility agreements), rights-of-way, covenants, consents, reservations, encroachments, variations and zoning and other restrictions, charges or encumbrances (whether or not recorded), which do not interfere materially with the ordinary conduct of the business of the Borrower and its Subsidiaries taken as a whole and which do not materially detract from the value of the property to which they attach or materially impair the use thereof to the Borrower and its Subsidiaries taken as a whole; and

(f) Liens securing Indebtedness permitted under SECTION 8.5(H) provided that such Lien extends only to the property acquired with the proceeds of such Indebtedness.

VIII.5. INDEBTEDNESS. Incur, create, assume or permit to exist any Indebtedness, howsoever evidenced, except:

(a) Indebtedness existing as of the Closing Date as set forth in SCHEDULE 6.6; PROVIDED, none of the instruments and agreements evidencing or governing any such Indebtedness shall be amended, modified or supplemented in any material respects after the Closing Date to change any terms of subordination, repayment or rights of conversion, put, exchange or other rights from such terms and rights as in effect on the Closing Date;

(b) Indebtedness owing to the Agent or any Lender in connection with this Agreement, any Note or other Loan Document;

(c) the endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business;

(d) the Private Placement Debt;

(e) Indebtedness arising from Rate Hedging Obligations permitted under SECTION 8.16;

(f) unsecured intercompany Indebtedness for loans and advances made by the Borrower or any Guarantor to the Borrower or any Guarantor, provided that such intercompany Indebtedness is evidenced by a promissory note or similar written instrument acceptable to the Agent which provides that such Indebtedness is subordinated to obligations, liabilities and undertakings of the holder or owner thereof under the Loan Documents on terms acceptable to the Agent;

(g) unsecured (other than by a Letter of Credit) Indebtedness, subordinated (other than in those cases where supported by a Letter of Credit) to the Obligations on terms acceptable to the Agent, in an aggregate outstanding amount not to exceed \$10,000,000, which Indebtedness represents a portion of the Cost of Acquisition which is payable to Persons selling an equity interest or assets to the Borrower or one or more of its Subsidiaries; PROVIDED, HOWEVER, in computing such \$10 million amount, in the event that any such Indebtedness is secured or enhanced by a Letter of Credit or by a guarantee of the Borrower or one or more of its Subsidiaries, the amount of only the original Indebtedness, but not such Letter of Credit or related obligations or such guarantee, shall count towards the \$10 million limitation; and

(h) Indebtedness incurred to purchase property, plant and equipment in an aggregate outstanding amount not to exceed at any time \$7,500,000.

VIII.6. TRANSFER OF ASSETS. Sell, lease, transfer or otherwise dispose of any assets of Borrower or any Subsidiary (including any ownership interest in any Subsidiary) other than (a) dispositions of inventory in the ordinary course of business, (b) dispositions of equipment or real property which, in the aggregate during any Fiscal Year, have a fair market value or book value, whichever is less, of \$5,000,000 or less and is not replaced by equipment having at least equivalent value, (c) dispositions of property that is substantially worn, damaged, obsolete or, in the judgment of the Borrower, no longer best used or useful in its business or that of any Subsidiary, (d) transfers of assets necessary to give effect to merger or consolidation transactions permitted by SECTION 8.8, (e) the disposition of Eligible Securities in the ordinary course of management of the investment portfolio of the Borrower and its Subsidiaries, and (f) the sale of all or substantially all of the capital stock or assets of Dunhill and P.E. Delmar, Inc. for fair market value (upon which event the Agent will, at the request and reasonable expense of the Borrower, execute such documents as shall be acceptable to the Agent and its special counsel releasing Dunhill and P.E. Delmar, Inc. from their obligations under the Facility Guaranty to which each is a party).

VIII.7. INVESTMENTS. Purchase, own, invest in or otherwise acquire, directly or indirectly, any stock or other securities, or make or permit to exist any investment whatsoever in any other Person or permit to exist any loans or advances to any Person, except that Borrower may maintain investments or invest in:

(a) securities of any Person acquired in an Acquisition permitted hereunder;

(b) Eligible Securities;

(c) investments in Persons existing as of the date hereof and as set forth in SCHEDULE 6.4;

(d) accounts receivable arising and trade credit granted in the ordinary course of business and any securities or other assets received in satisfaction or partial satisfaction thereof in connection with accounts of financially troubled Persons to the extent reasonably necessary in order to prevent or limit loss; and

(e) investments in Subsidiaries which are Guarantors;

(f) additional investments in other Persons provided that (i) the aggregate costs incurred in making such investments (reduced by cash dividends or other cash payments received on or in consideration of such investments) shall not exceed \$7,500,000 in the aggregate at any time and (ii) prior to and immediately after giving effect to such investment, no Default or Event of Default shall exist and be continuing;

(g) loans and advances between or among the Borrower and the Guarantors described in SECTION 8.5(G); and

(h) travel and entertainment advances made to employees of Borrower or any of its Subsidiaries in the ordinary course of business.

VIII.8. MERGER OR CONSOLIDATION. (a) Consolidate with or merge into any other Person, or (b) permit any other Person to merge into it, or (c) liquidate, wind-up or dissolve or sell, transfer or lease or otherwise dispose of all or a substantial part of its assets; PROVIDED, HOWEVER, (i) any Subsidiary of the Borrower may merge or transfer all or substantially all of its assets into or consolidate with the Borrower or any wholly-owned Subsidiary of the Borrower, and (ii) any other Person may merge into or consolidate with the Borrower or any wholly-owned Subsidiary and any Subsidiary may merge into or consolidate with any other Person in order to consummate an Acquisition permitted by SECTION 8.2, PROVIDED FURTHER, that any resulting or surviving entity shall execute and deliver such agreements and other documents, including a Facility Guaranty, and take such other action as the Agent may require to evidence or confirm its express assumption of the obligations and liabilities of its predecessor entities under the Loan Documents; and provided further that Dunhill and/or P.E. Del/Mar may merge with or into or consolidate with any other Person in connection with the disposition of such Subsidiaries in accordance with SECTION 8.6 so long as as a result thereof the Borrower and/or its Subsidiaries shall not be liable for or assume any liability or obligation of any Person who was not immediately prior to such time a Subsidiary.

VIII.9. RESTRICTED PAYMENTS. Make any Restricted Payment or apply or set apart any of their assets therefor or agree to do any of the foregoing; PROVIDED, however, the Borrower may make the following Restricted Payments if immediately prior and immediately after giving effect thereto no Default or Event of Default shall exist or occur and be continuing:

- (i) in any Fiscal Year (on a noncumulative basis, with the effect that amounts not paid in any Fiscal Year may not be carried over for payment in a subsequent period), cash dividends and other cash distributions in respect of its capital stock not to exceed 50% of Consolidated Net Income for such Fiscal Year;
- (ii) the cash redemption of Preferred Stock owned of record by Rheem at a redemption price not to exceed \$2,000,000 in the aggregate;
- (iii) the payment of dividends on Preferred Stock in an aggregate amount not to exceed \$130,000 during any Fiscal Year on a cumulative basis (so that amounts not paid in one Fiscal Year may be paid in a subsequent Fiscal Year);
- (iv) redeem either class of outstanding registered common stock of the Borrower for an aggregate purchase price of not to exceed \$20,000,000; provided that the amount spent to purchase common stock during any Four-Quarter Period shall not exceed Consolidated Net Income for such period;
- (v) distribute its ownership interest in, or all or a portion of the proceeds upon the sale of, Dunhill to stockholders of Borrower;
- (vi) the payment of dividends or other distributions on the WSC Preferred Stock or the making of contributions to the WSC ESOP in an aggregate amount not to exceed \$625,000 during any Fiscal Year; PROVIDED, HOWEVER, that any such dividends, distributions or contributions which in the aggregate exceed \$100,000 in any Fiscal Year may only be made for the purpose of providing to the WSC ESOP funds for repayment of Indebtedness owing by WSC ESOP to WSC Holdings; and
- (vii) The payment of amounts owing to one or more holders of the WSC Preferred Stock in the event such holder(s) exercise its or their redemption rights.

VIII.10. TRANSACTIONS WITH AFFILIATES. Other than transactions permitted under SECTIONS 8.7 and 8.8, enter into any transaction after the Closing Date, including, without limitation, the purchase, sale, lease or exchange of property, real or personal, or the rendering of any service, with any Affiliate of the Borrower, except (a) that such Persons may render services to the Borrower or its Subsidiaries for compensation at the same rates generally paid by Persons engaged in the same or similar businesses for the same or similar services or as may otherwise be approved by a majority vote of Borrower's shareholders, (b) that the Borrower or any Subsidiary may render services to such Persons for compensation at the same rates generally charged by the Borrower or such Subsidiary and (c) in either case in the ordinary course of business and pursuant to the reasonable requirements of the Borrower's (or any Subsidiary's) business consistent with past practice of the Borrower and its Subsidiaries and upon fair and

reasonable terms no less favorable to the Borrower (or any Subsidiary) than would be obtained in a comparable arm's-length transaction with a Person not an Affiliate.

VIII.11. COMPLIANCE WITH ERISA. With respect to any Pension Plan, Employee Benefit Plan or Multiemployer Plan:

(a) permit the occurrence of any Termination Event which would result in a liability on the part of the Borrower or any ERISA Affiliate to the PBGC; or

(b) permit the present value of all benefit liabilities under all Pension Plans to exceed the current value of the assets of such Pension Plans allocable to such benefit liabilities; or

(c) permit any accumulated funding deficiency (as defined in Section 302 of ERISA and Section 412 of the Code) with respect to any Pension Plan, whether or not waived; or

(d) fail to make any contribution or payment to any Multiemployer Plan which the Borrower or any ERISA Affiliate may be required to make under any agreement relating to such Multiemployer Plan, or any law pertaining thereto; or

(e) engage, or permit any Borrower or any ERISA Affiliate to engage, in any prohibited transaction under Section 406 of ERISA or Sections 4975 of the Code for which a civil penalty pursuant to Section 502(I) of ERISA or a tax pursuant to Section 4975 of the Code may be imposed; or

(f) permit the establishment of any Employee Benefit Plan providing post-retirement welfare benefits or establish or amend any Employee Benefit Plan which establishment or amendment could result in liability to the Borrower or any ERISA Affiliate or increase the obligation of the Borrower or any ERISA Affiliate to a Multiemployer Plan where such establishment or amendment would reasonably be expected to result in a Material Adverse Effect; or

(g) fail, or permit the Borrower or any ERISA Affiliate to fail, to establish, maintain and operate each Employee Benefit Plan in compliance in all material respects with the provisions of ERISA, the Code, all applicable Foreign Benefit Laws and all other applicable laws and the regulations and interpretations thereof;

VIII.12. FISCAL YEAR. Change its Fiscal Year.

VIII.13. DISSOLUTION, ETC. Wind up, liquidate or dissolve (voluntarily or involuntarily) or commence or suffer any proceedings seeking any such winding up, liquidation or dissolution, except in connection with a merger or consolidation permitted pursuant to SECTION 8.8 or the sale of Dunhill and P.E./ Delmar, Inc. permitted by SECTION 8.6 or the dissolution of The Houston Ad Company or Gemaire Caribe, Inc.

VIII.14. LIMITATIONS ON SALES AND LEASEBACKS. Except to the extent it may sell property under SECTION 8.6(B)), enter into any arrangement with any Person providing for the leasing by the Borrower or any Subsidiary of real or personal property, whether now owned or hereafter acquired in a related transaction or series of related transactions, which has been or is to be sold or transferred by the Borrower or any Subsidiary to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of the Borrower or any Subsidiary.

VIII.15. CHANGE IN CONTROL. Cause, suffer or permit to exist or occur any Change of Control.

VIII.16. RATE HEDGING OBLIGATIONS. Incur any Rate Hedging Obligations or enter into any agreements, arrangements, devices or instruments relating to Rate Hedging Obligations, except as otherwise agreed by the Borrower and the Required Lenders for Rate Hedging Obligations incurred to limit risks of currency or interest rate fluctuations to which the Borrower and its Subsidiaries are otherwise subject by virtue of the operations of their businesses, and not for speculative purposes; PROVIDED that the aggregate notional amount of all such Rate Hedging Obligations shall at no time exceed \$260,000,000.

VIII.17. NEGATIVE PLEDGE CLAUSES. Enter into or cause, suffer or permit to exist any agreement with any Person other than the Agent and the Lenders pursuant to this Agreement or any other Loan Documents which prohibits or limits the ability of any of the Borrower or any Subsidiary to create, incur, assume or suffer to exist any Lien upon any of its property.

VIII.18. PREPAYMENTS, ETC. OF INDEBTEDNESS. (a) Prepay, redeem, purchase, defease or otherwise satisfy prior to the scheduled maturity thereof in any manner, or make any payment in violation of any subordination terms of, the Private Placement Debt; or

(b) amend, modify or change in any manner any term or condition of any Indebtedness described in SECTION 8.5(A) OR (D) so that the terms and conditions thereof are less favorable to the Agent and the Lenders than the terms of such Indebtedness as of the Closing Date.

ARTICLE IX

EVENTS OF DEFAULT AND ACCELERATION

IX.1. EVENTS OF DEFAULT. If any one or more of the following events (herein called "Events of Default") shall occur for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of any court or any order, rule or regulation of any Governmental Authority), that is to say:

(a) if default shall be made in the due and punctual payment of the principal of any Loan, Reimbursement Obligation or other Obligation, when and as the same shall be due and payable whether pursuant to any provision of ARTICLE II or ARTICLE III, at maturity, by acceleration or otherwise; or

(b) if default shall be made in the due and punctual payment of any amount of interest on any Loan, Reimbursement Obligation or other Obligation or of any fees or other amounts payable to any of the Lenders, the Agent or NCMI on the date on which the same shall be due and payable; or

(c) if default shall be made in the performance or observance of any covenant set forth in SECTION 7.7, 7.11, 7.19 or ARTICLE VIII;

(d) if a default shall be made in the performance or observance of, or shall occur under, any covenant, agreement or provision contained in this Agreement or the Notes (other than as described in clauses (a), (b) or (c) above) and such default shall continue for 30 or more days after the earlier of receipt of notice of such default by the Authorized Representative from the Agent or the Chief Executive Officer, President, Vice President, Chief Financial Officer or Treasurer of the Borrower becomes aware of such default, or if a default shall be made in the performance or observance of, or shall occur under, any covenant, agreement or provision contained in any of the other Loan Documents (beyond any applicable grace period, if any, contained therein) or in any instrument or document evidencing or creating any obligation, guaranty, or Lien in favor of the Agent or any of the Lenders or delivered to the Agent or any of the Lenders in connection with or pursuant to this Agreement or any of the Obligations, or if any Loan Document ceases to be in full force and effect (other than in accordance with its terms in the absence of default or with the consent of the Agent and the Lenders), or if without the written consent of the Agent and the Lenders, this Agreement or any other Loan Document shall be disaffirmed or shall terminate, be terminable or be terminated or become void or unenforceable for any reason whatsoever (other than in accordance with its terms in the absence of default or with the consent of the Agent and the Lenders); or

(e) if there shall occur (i) a default, which is not waived, in the payment of any principal, interest, premium or other amount with respect to any Indebtedness (other

than the Loans and other Obligations) of the Borrower or any Subsidiary in an amount not less than \$500,000 in the aggregate outstanding, or (ii) a default, which is not waived, in the performance, observance or fulfillment of any term or covenant contained in any agreement or instrument under or pursuant to which any such Indebtedness may have been issued, created, assumed, guaranteed or secured by the Borrower or any Subsidiary, or (iii) any other event of default as specified in any agreement or instrument under or pursuant to which any such Indebtedness may have been issued, created, assumed, guaranteed or secured by the Borrower or any Subsidiary, and in each case described in (i), (ii) and (iii) above such default or event of default shall continue for more than the period of grace, if any, therein specified, or such default or event of default shall permit the holder of any such Indebtedness (or any agent or trustee acting on behalf of one or more holders) to accelerate the maturity thereof; or

(f) if any representation, warranty or other statement of fact contained in any Loan Document or in any writing, certificate, report or statement at any time furnished to the Agent or any Lender by or on behalf of the Borrower or any other Credit Party pursuant to or in connection with any Loan Document, or otherwise, shall be false or misleading in any material respect when given; or

(g) if the Borrower or any Subsidiary shall be unable to pay its debts generally as they become due; file a petition to take advantage of any insolvency statute; make an assignment for the benefit of its creditors; commence a proceeding for the appointment of a receiver, trustee, liquidator or conservator of itself or of the whole or any substantial part of its property; file a petition or answer seeking liquidation, reorganization or arrangement or similar relief under the federal bankruptcy laws or any other applicable law or statute; or

(h) if a court of competent jurisdiction shall enter an order, judgment or decree appointing a custodian, receiver, trustee, liquidator or conservator of the Borrower or any Subsidiary or of the whole or any substantial part of its properties and such order, judgment or decree continues unstayed and in effect for a period of sixty (60) days, or approve a petition filed against the Borrower or any Subsidiary seeking liquidation, reorganization or arrangement or similar relief under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state, which petition is not dismissed within sixty (60) days; or if, under the provisions of any other law for the relief or aid of debtors, a court of competent jurisdiction shall assume custody or control of the Borrower or any Subsidiary or of the whole or any substantial part of its properties, which control is not relinquished within sixty (60) days; or if there is commenced against the Borrower or any Subsidiary any proceeding or petition seeking reorganization, arrangement or similar relief under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state which proceeding or petition remains undismissed for a period of sixty (60) days; or if the Borrower or any Subsidiary takes any action to indicate its consent to or approval of any such proceeding or petition; or

(i) if (i) one or more judgments or orders where the amount not covered by insurance (or the amount as to which the insurer denies liability) is in excess of \$1,000,000 is rendered against the Borrower or any Subsidiary, or (ii) there is any attachment, injunction or execution against any of the Borrower's or Subsidiaries' properties for any amount in excess of \$1,000,000 in the aggregate; and such judgment, attachment, injunction or execution remains unpaid, unappealed, unstayed, undischarged, unbonded or undismissed for a period of sixty (60) days; or

(j) if the Borrower or any Major Subsidiary shall, other than in the ordinary course of business (as determined by past practices), suspend all or substantially all of its operations material to the conduct of the business of the Borrower or such Subsidiary for a period of more than 120 days; or

(k) if the Borrower or any Subsidiary shall breach any of the material terms or conditions of any agreement under which any Rate Hedging Obligations permitted hereby is created and such breach shall continue beyond any grace period, if any, relating thereto pursuant to the terms of such agreement, or if the Borrower or any Subsidiary shall disaffirm or seek to disaffirm any such agreement or any of its obligations thereunder; or

(l) if there shall occur and not be waived an Event of Default as defined in any of the other Loan Documents; or

(m) if there shall occur any termination, expiration, lapse, avoidance, rescission or rejection of any of the Distribution Agreements, without the prior written consent of the Required Lenders;

then, and in any such event and at any time thereafter, if such Event of Default or any other Event of Default shall have not been waived:

(A) Either or both of the following actions may be taken: (i) the Agent, with the consent of the Required Lenders, may, and at the direction of the Required Lenders shall, declare any obligation of the Lenders and the Issuing Bank to make further Loans or to issue additional Letters of Credit terminated, whereupon the obligation of each Lender to make further Loans and of the Issuing Bank to issue Letters of Credit hereunder shall terminate immediately, and (ii) the Agent shall at the direction of the Required Lenders, at their option, declare by notice to the Borrower any or all of the Obligations to be immediately due and payable, and the same, including all interest accrued thereon and all other obligations of the Borrower to the Agent and the Lenders, shall forthwith become immediately due and payable without presentment, demand, protest, notice or other formality of any kind, all of which are hereby expressly waived, anything contained herein or in any instrument evidencing the Obligations to the contrary

notwithstanding; PROVIDED, however, that notwithstanding the above, if there shall occur an Event of Default under clause (g) or (h) above, then the obligation of the Lenders to make Loans and of the Issuing Bank to issue Letters of Credit hereunder shall automatically terminate and any and all of the Obligations shall be immediately due and payable without the necessity of any action by the Agent or the Required Lenders or notice to the Agent or the Lenders; and

(B) The Borrower shall, upon demand of the Agent or the Required Lenders, deposit cash with the Agent in an amount equal to the amount of any Letter of Credit Outstandings, as collateral security for the repayment of any future drawings or payments under such Letters of Credit, and such amounts shall be held by the Agent pursuant to the terms of the LC Account Agreement; and

(C) The Agent and each of the Lenders shall have all of the rights and remedies available under the Loan Documents or under any applicable law.

IX.2. AGENT TO ACT. In case any one or more Events of Default shall occur and not have been waived, the Agent may, and at the direction of the Required Lenders shall, proceed to protect and enforce their rights or remedies either by suit in equity or by action at law, or both, whether for the specific performance of any covenant, agreement or other provision contained herein or in any other Loan Document, or to enforce the payment of the Obligations or any other legal or equitable right or remedy.

IX.3. CUMULATIVE RIGHTS. No right or remedy herein conferred upon the Lenders or the Agent is intended to be exclusive of any other rights or remedies contained herein or in any other Loan Document, and every such right or remedy shall be cumulative and shall be in addition to every other such right or remedy contained herein and therein or now or hereafter existing at law or in equity or by statute, or otherwise.

IX.4. NO WAIVER. No course of dealing between the Borrower and any Lender or the Agent or any failure or delay on the part of any Lender or the Agent in exercising any rights or remedies under any Loan Document or otherwise available to it shall operate as a waiver of any rights or remedies and no single or partial exercise of any rights or remedies shall operate as a waiver or preclude the exercise of any other rights or remedies hereunder or of the same right or remedy on a future occasion.

IX.5. ALLOCATION OF PROCEEDS. If an Event of Default has occurred and not been waived, and the maturity of the Notes has been accelerated pursuant to ARTICLE IX hereof, all payments received by the Agent hereunder, in respect of any principal of or interest on the Obligations or any other amounts payable by the Borrower hereunder, shall be applied by the Agent in the following order:

(a) amounts due to the Lenders and NationsBank pursuant to SECTIONS 2.10, 3.3 AND 11.5;

(b) amounts due to the Agent and NationsBank pursuant to SECTION 10.11 and SECTION 3.4;

(c) payments of interest on Loans, Swing Line Loans and Reimbursement Obligations, to be applied for the ratable benefit of the Lenders (with amounts payable in respect of Swing Line Outstandings being included in such calculation and paid to NationsBank);

(d) payments of principal of Loans, Swing Line Loans and Reimbursement Obligations, to be applied for the ratable benefit of the Lenders (with amounts payable in respect of Swing Line Outstandings being included in such calculation and paid to NationsBank);

(e) payments of cash amounts to the Agent in respect of outstanding Letters of Credit pursuant to SECTION 9.1;

(f) amounts due to the Lenders pursuant to SECTIONS 3,2(G), 7.15 and 11.9;

(g) payments of all other amounts due under any of the Loan Documents, if any, to be applied for the ratable benefit of the Lenders;

(h) amounts due to any of the Lenders in respect of Obligations consisting of liabilities under any Swap Agreement with any of the Lenders on a pro rata basis according to the amounts owed; and

(i) any surplus remaining after application as provided for herein, to the Borrower or otherwise as may be required by applicable law.

ARTICLE X

THE AGENT

X.1. APPOINTMENT, POWERS, AND IMMUNITIES. Each Lender hereby irrevocably appoints and authorizes the Agent to act as its agent under this Agreement and the other Loan Documents with such powers and discretion as are specifically delegated to the Agent by the terms of this Agreement and the other Loan Documents, together with such other powers as are reasonably incidental thereto. The Agent (which term as used in this sentence and in SECTION 10.5 and the first sentence of SECTION 10.6 hereof shall include its affiliates and its own and its affiliates' officers, directors, employees, and agents):

(a) shall not have any duties or responsibilities except those expressly set forth in this Agreement and shall not be a trustee or fiduciary for any Lender;

(b) shall not be responsible to the Lenders for any recital, statement, representation, or warranty (whether written or oral) made in or in connection with any Loan Document or any certificate or other document referred to or provided for in, or received by any of them under, any Loan Document, or for the value, validity, effectiveness, genuineness, enforceability, or sufficiency of any Loan Document, or any other document referred to or provided for therein or for any failure by any Credit Party, Lender or any other Person to perform any of its obligations thereunder;

(c) shall not be responsible for or have any duty to ascertain, inquire into, or verify the performance or observance of any covenants or agreements by any Loan Party or the satisfaction of any condition or to inspect the property (including the books and records) of any Credit Party or any of its Subsidiaries or affiliates;

(d) shall not be required to initiate or conduct any litigation or collection proceedings under any Loan Document; and

(e) shall not be responsible for any action taken or omitted to be taken by it under or in connection with any Loan Document, except for its own gross negligence or willful misconduct.

The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care.

X.2. RELIANCE BY AGENT. The Agent shall be entitled to rely upon any certification, notice, instrument, writing, or other communication (including, without limitation, any thereof by telephone or telefacsimile) believed by it to be genuine and correct and to have been signed, sent or made by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel (including counsel for any Credit Party), independent accountants, and other

experts selected by the Agent. The Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until the Agent receives and accepts an Assignment and Acceptance executed in accordance with SECTION 11.1 hereof. As to any matters not expressly provided for by this Agreement, the Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding on all of the Lenders; PROVIDED, HOWEVER, that the Agent shall not be required to take any action that exposes the Agent to personal liability or that is contrary to any Loan Document or applicable law or unless it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking any such action.

X.3. DEFAULTS. The Agent shall not be deemed to have knowledge or notice of the occurrence of a Default or Event of Default unless the Agent has received written notice from a Lender or the Borrower specifying such Default or Event of Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default or Event of Default, the Agent shall give prompt notice thereof to the Lenders. The Agent shall (subject to SECTION 10.2 hereof) take such action with respect to such Default or Event of Default as shall reasonably be directed by the Required Lenders, PROVIDED THAT, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interest of the Lenders.

X.4. RIGHTS AS LENDER. With respect to its Revolving Credit Commitment and the Loans made by it, NationsBank (and any successor acting as Agent) in its capacity as a Lender hereunder shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Agent in its individual capacity. NationsBank (and any successor acting as Agent) and its affiliates may (without having to account therefor to any Lender) accept deposits from, lend money to, make investments in, provide services to, and generally engage in any kind of lending, trust, or other business with any Credit Party or any of its Subsidiaries or affiliates as if it were not acting as Agent, and NationsBank (and any successor acting as Agent) and its affiliates may accept fees and other consideration from any Credit Party or any of its Subsidiaries or affiliates for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

X.5. INDEMNIFICATION. The Lenders agree to indemnify the Agent (to the extent not reimbursed under SECTION 11.9 hereof, but without limiting the obligations of the Borrower under such Section) ratably in accordance with their respective Revolving Credit Commitments, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses (including attorneys' fees), or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Agent (including by any Lender) in any way relating to or arising out of any Loan Document or the transactions contemplated thereby or any action taken or omitted by the Agent under any Loan Document; PROVIDED that no Lender

shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the Person to be indemnified. Without limitation of the foregoing, each Lender agrees to reimburse the Agent promptly upon demand for its ratable share of any costs or expenses payable by the Borrower under SECTION 11.5, to the extent that the Agent is not promptly reimbursed for such costs and expenses by the Borrower. The agreements contained in this SECTION 10.5 shall survive payment in full of the Loans and all other amounts payable under this Agreement.

X.6. NON-RELIANCE ON AGENT AND OTHER LENDERS. Each Lender agrees that it has, independently and without reliance on the Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own credit analysis of the Credit Parties and their Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under the Loan Documents. Except for notices, reports, and other documents and information expressly required to be furnished to the Lenders by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition, or business of any Loan Party or any of its Subsidiaries or affiliates that may come into the possession of the Agent or any of its affiliates.

X.7. RESIGNATION OF AGENT. The Agent may resign at any time by giving notice thereof to the Lenders and the Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders and shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent which shall be a commercial bank organized under the laws of the United States of America having combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor, such successor shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges, and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation hereunder as Agent, the provisions of this ARTICLE X shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

X.8. FEES. The Borrower agrees to pay to the Agent, for its individual account, an annual Agent's fee as from time to time agreed to by the Borrower and Agent in writing.

ARTICLE XI

MISCELLANEOUS

XI.1. ASSIGNMENTS AND PARTICIPATIONS. (a) Each Lender may assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Loans, its Note, and its Revolving Credit Commitment); PROVIDED, HOWEVER, that

(i) each such assignment shall be to an Eligible Assignee;

(ii) except in the case of an assignment to another Lender or an assignment of all of a Lender's rights and obligations under this Agreement, any such partial assignment shall be in an amount at least equal to \$10,000,000 or an integral multiple of \$5,000,000 in excess thereof;

(iii) each such assignment by a Lender shall be of a constant, and not varying, percentage of all of its rights and obligations under this Agreement and the Note; and

(iv) the parties to such assignment shall execute and deliver to the Agent for its acceptance an Assignment and Acceptance in the form of EXHIBIT B hereto, together with any Note subject to such assignment and a processing fee of \$3,500.

Upon execution, delivery, and acceptance of such Assignment and Acceptance, the assignee thereunder shall be a party hereto and, to the extent of such assignment, have the obligations, rights, and benefits of a Lender hereunder and the assigning Lender shall, to the extent of such assignment, relinquish its rights and be released from its obligations under this Agreement. Upon the consummation of any assignment pursuant to this Section, the assignor, the Agent and the Borrower shall make appropriate arrangements so that, if required, new Notes are issued to the assignor and the assignee. If the assignee is not incorporated under the laws of the United States of America or a state thereof, it shall deliver to the Borrower and the Agent certification as to exemption from deduction or withholding of Taxes in accordance with SECTION 4.6.

(b) The Agent shall maintain at its address referred to in SECTION 11.2 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of the Lenders and the Revolving Credit Commitment of, and principal amount of the Loans owing to, each Lender from time to time (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(c) Upon its receipt of an Assignment and Acceptance executed by the parties thereto, together with any Note subject to such assignment and payment of the processing fee, the Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of EXHIBIT B hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) give prompt notice thereof to the parties thereto.

(d) Each Lender may sell participations to one or more Persons in all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment and its Loans); PROVIDED, HOWEVER, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participant shall be entitled to the benefit (and be bound by the related covenants and conditions thereunder) of the yield protection provisions contained in ARTICLE IV and the right of set-off contained in SECTION 11.3, and (iv) the Borrower shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, and such Lender shall retain the sole right to enforce the obligations of the Borrower relating to its Loans and its Note and to approve any amendment, modification, or waiver of any provision of this Agreement (other than amendments, modifications, or waivers decreasing the amount of principal or the rate at which interest or fees is payable on such Loans or Note, or extending any scheduled principal payment date or date fixed for the payment of interest or fees on such Loans or Note, or extending its Revolving Credit Commitment).

(e) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time assign and pledge all or any portion of its Loans and its Note to any Federal Reserve Bank as collateral security pursuant to Regulation A and any Operating Circular issued by such Federal Reserve Bank. No such assignment shall release the assigning Lender from its obligations hereunder.

(f) Any Lender may furnish any information concerning the Borrower or any of its Subsidiaries in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants), subject, however, to the provisions of SECTION 11.14 hereof.

XI.2. NOTICES. Any notice shall be conclusively deemed to have been received by any party hereto and be effective (i) on the day on which delivered (including hand delivery by commercial courier service) to such party (against receipt therefor), (ii) on the date of receipt at such address, telefacsimile number or telex number as may from time to time be specified by such party in written notice to the other parties hereto or otherwise received, in the case of notice by telegram, telefacsimile or telex, respectively (where the receipt of such message is verified by return), or (iii) on the fifth Business Day after the day on which mailed, if sent prepaid by certified or registered mail, return receipt requested, in each case delivered, transmitted or mailed, as the case may be, to the address, telex number or telefacsimile number, as appropriate, set forth below or such other address or number as such party shall specify by notice hereunder:

(a) if to the Borrower:

Watsco, Inc.
2665 South Bayshore Drive
Suite 901
Coconut Grove, Florida 33133
Attn: Barry S. Logan
Telephone: (305) 858-0828
Telefacsimile: (305) 858-4492

(b) if to the Agent:

NationsBank, National Association
Independence Center, 15th Floor
NC1-001-15-04
Charlotte, North Carolina 28255
Attention: Agency Services
Telephone: (704) 386-____
Telefacsimile: (704) 386-9923

with a copy to:

NationsBank, National Association
100 S.E. Second Street, 14th Floor
Miami, Florida 33131
Attention: Steven Mayer
Telephone: (305) 533-2669
Telefacsimile: (305) 533-2681

(c) if to the Lenders:

At the addresses set forth on the signature pages
hereof and on the signature page of each Assignment
and Acceptance;

(d) if to any other Credit Party, at the address set
forth on the signature page of the Facility Guaranty
executed by such Credit Party, as the case may be.

XI.3. RIGHT OF SET-OFF; ADJUSTMENTS. (a) Upon the occurrence and during the continuance of any Event of Default, each Lender (and each of its affiliates) is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender (or any of its affiliates) to or for the credit

or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement and the Note held by such Lender, irrespective of whether such Lender shall have made any demand under this Agreement or such Note and although such obligations may be unmatured. Each Lender agrees promptly to notify the Borrower after any such set-off and application made by such Lender; PROVIDED, HOWEVER, that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender under this SECTION 11.3 are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender may have.

(b) If any Lender (a "benefitted Lender") shall at any time receive any payment of all or part of the Loans owing to it, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's Loans owing to it, or interest thereon, such benefitted Lender shall purchase for cash from the other Lenders a participating interest in such portion of each such other Lender's Loans owing to it, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; PROVIDED, HOWEVER, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that any Lender so purchasing a participation from a Lender pursuant to this SECTION 11.3 may, to the fullest extent permitted by law, exercise all of its rights of payment (including the right of set-off) with respect to such participation as fully as if such Person were the direct creditor of the Borrower in the amount of such participation.

XI.4. SURVIVAL. All covenants, agreements, representations and warranties made herein shall survive the making by the Lenders of the Loans and the issuance of the Letters of Credit and the execution and delivery to the Lenders of this Agreement and the Notes and shall continue in full force and effect so long as any of Obligations remain outstanding or any Lender has any commitment hereunder or the Borrower has continuing obligations hereunder unless otherwise provided herein. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and permitted assigns of such party and all covenants, provisions and agreements by or on behalf of the Borrower which are contained in the Loan Documents shall inure to the benefit of the successors and permitted assigns of the Lenders or any of them.

XI.5. EXPENSES. The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the syndication, preparation, execution, delivery, administration, modification, and amendment of this Agreement, the other Loan Documents, and the other documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent (including the cost of internal counsel) with respect thereto and with respect to advising the Agent as to its rights and responsibilities under the Loan Documents. The Borrower further agrees to pay on demand all costs and expenses of the Agent

and the Lenders, if any (including, without limitation, reasonable attorneys' fees and expenses and the cost of internal counsel), in connection with the enforcement (whether through negotiations, legal proceedings, or otherwise) of the Loan Documents and the other documents to be delivered hereunder.

XI.6. AMENDMENTS AND WAIVERS. Any provision of this Agreement or any other Loan Document may be amended or waived if, but only if, such amendment or waiver is in writing and is signed by the Borrower and the Required Lenders (and, if ARTICLE X or the rights or duties of the Agent are affected thereby, by the Agent); PROVIDED that no such amendment or waiver shall, unless signed by all the Lenders, (i) increase the Revolving Credit Commitments of the Lenders, (ii) reduce the principal of or rate of interest on any Loan or any fees, Reimbursement Obligations or other amounts payable hereunder, (iii) postpone any date fixed for the payment of any scheduled installment of principal of or interest on any Loan or any fees, Reimbursement Obligations or other amounts payable hereunder or for termination of any Revolving Credit Commitment, (iv) change the percentage of the Revolving Credit Commitments or of the unpaid principal amount of the Notes, or the number of Lenders, which shall be required for the Lenders or any of them to take any action under this SECTION 11.6 or any other provision of this Agreement or (v) release any Guarantor; and PROVIDED, FURTHER, that no such amendment or waiver that affects the rights, privileges or obligations of NationsBank as provider of Swing Line Loans, shall be effective unless signed in writing by NationsBank or that affects the rights, privileges or obligations of the Issuing Bank as issuer of Letters of Credit, shall be effective unless signed in writing by the Issuing Bank. Notwithstanding any provision of the other Loan Documents to the contrary, as between the Agent and the Lenders, execution by the Agent shall not be deemed conclusive evidence that the Agent has obtained the written consent of the Required Lenders. No notice to or demand on the Borrower in any case shall entitle the Borrower to any other or further notice or demand in similar or other circumstances, except as otherwise expressly provided herein. No delay or omission on any Lender's or the Agent's part in exercising any right, remedy or option shall operate as a waiver of such or any other right, remedy or option or of any Default or Event of Default.

XI.7. COUNTERPARTS. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, and it shall not be necessary in making proof of this Agreement to produce or account for more than one such fully-executed counterpart.

XI.8. TERMINATION. The termination of this Agreement shall not affect any rights of the Borrower, the Lenders or the Agent or any obligation of the Borrower, the Lenders or the Agent, arising prior to the effective date of such termination, and the provisions hereof shall continue to be fully operative until all transactions entered into or rights created or obligations incurred prior to such termination have been fully disposed of, concluded or liquidated and the Obligations arising prior to or after such termination have been irrevocably paid in full. The rights granted to the Agent for the benefit of the Lenders under the Loan Documents shall continue in full force and effect, notwithstanding the termination of this Agreement, until all of the Obligations have been paid in full after the termination hereof (other than Obligations in the

nature of continuing indemnities or expense reimbursement obligations not yet due and payable, which shall continue) or the Borrower has furnished the Lenders and the Agent with an indemnification satisfactory to the Agent and each Lender with respect thereto. All representations, warranties, covenants, waivers and agreements contained herein shall survive termination hereof until payment in full of the Obligations unless otherwise provided herein. Notwithstanding the foregoing, if after receipt of any payment of all or any part of the Obligations, any Lender is for any reason compelled to surrender such payment to any Person because such payment is determined to be void or voidable as a preference, impermissible setoff, a diversion of trust funds or for any other reason, this Agreement shall continue in full force and the Borrower shall be liable to, and shall indemnify and hold the Agent or such Lender harmless for, the amount of such payment surrendered until the Agent or such Lender shall have been finally and irrevocably paid in full. The provisions of the foregoing sentence shall be and remain effective notwithstanding any contrary action which may have been taken by the Agent or the Lenders in reliance upon such payment, and any such contrary action so taken shall be without prejudice to the Agent or the Lenders' rights under this Agreement and shall be deemed to have been conditioned upon such payment having become final and irrevocable.

XI.9. INDEMNIFICATION; LIMITATION OF LIABILITY. (a) The Borrower agrees to indemnify and hold harmless the Agent and each Lender and each of their affiliates and their respective officers, directors, employees, agents, and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities, costs, and expenses (including, without limitation, reasonable attorneys' fees) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation, or proceeding or preparation of defense in connection therewith) the Loan Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Loan, except to the extent such claim, damage, loss, liability, cost, or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. In the case of an investigation, litigation or other proceeding to which the indemnity in this SECTION 11.9 applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, shareholders or creditors or an Indemnified Party or any other Person or any Indemnified Party is otherwise a party thereto and whether or not the transactions contemplated hereby are consummated. The Borrower agrees not to assert any claim against the Agent, any Lender, any of their affiliates, or any of their respective directors, officers, employees, attorneys, agents, and advisers, on any theory of liability, for special, indirect, consequential, or punitive damages arising out of or otherwise relating to the Loan Documents, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Loans.

(b) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in this SECTION 13.9 shall survive the payment in full of the Loans and all other amounts payable under this Agreement.

XI.10. SEVERABILITY. If any provision of this Agreement or the other Loan Documents shall be determined to be illegal or invalid as to one or more of the parties hereto, then such provision shall remain in effect with respect to all parties, if any, as to whom such provision is neither illegal nor invalid, and in any event all other provisions hereof shall remain effective and binding on the parties hereto.

XI.11. ENTIRE AGREEMENT. This Agreement, together with the other Loan Documents, constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all previous proposals, negotiations, representations, commitments and other communications between or among the parties, both oral and written, with respect thereto.

XI.12. AGREEMENT CONTROLS. In the event that any term of any of the Loan Documents other than this Agreement conflicts with any express term of this Agreement, the terms and provisions of this Agreement shall control to the extent of such conflict.

XI.13. USURY SAVINGS CLAUSE. Notwithstanding any other provision herein, the aggregate interest rate charged under any of the Notes, including all charges or fees in connection therewith deemed in the nature of interest under applicable law shall not exceed the Highest Lawful Rate (as such term is defined below). If the rate of interest (determined without regard to the preceding sentence) under this Agreement at any time exceeds the Highest Lawful Rate (as defined below), the outstanding amount of the Loans made hereunder shall bear interest at the Highest Lawful Rate until the total amount of interest due hereunder equals the amount of interest which would have been due hereunder if the stated rates of interest set forth in this Agreement had at all times been in effect. In addition, if when the Loans made hereunder are repaid in full the total interest due hereunder (taking into account the increase provided for above) is less than the total amount of interest which would have been due hereunder if the stated rates of interest set forth in this Agreement had at all times been in effect, then to the extent permitted by law, the Borrower shall pay to the Agent an amount equal to the difference between the amount of interest paid and the amount of interest which would have been paid if the Highest Lawful Rate had at all times been in effect. Notwithstanding the foregoing, it is the intention of the Lenders and the Borrower to conform strictly to any applicable usury laws. Accordingly, if any Lender contracts for, charges, or receives any consideration which constitutes interest in excess of the Highest Lawful Rate, then any such excess shall be cancelled automatically and, if previously paid, shall at such Lender's option be applied to the outstanding amount of the Loans made hereunder or be refunded to the Borrower. As used in this paragraph, the term "Highest Lawful Rate" means the maximum lawful interest rate, if any, that at any time or from time to time may be contracted for, charged, or received under the laws applicable to such Lender which are presently in effect or, to the extent allowed by law, under such applicable laws which may hereafter be in effect and which allow a higher maximum nonusurious interest rate than applicable laws now allow.

XI.14. CONFIDENTIALITY. The Agent, Issuing Bank, each Lender and any participant in a Loan shall hold and cause its respective agents, officers, employees and representatives to hold all non-public information obtained from any Credit Party pursuant to the requirements of this

Agreement or any Loan Document in accordance with its customary procedures for handling confidential information of similar nature but may, in any event, make disclosures reasonably required in connection with the contemplated transfer or assignment of any of the Loans or Participations or as required or requested by any legal process of any applicable Governmental Authority.

XI.15. GOVERNING LAW; WAIVER OF JURY TRIAL.

(a) THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS (OTHER THAN THOSE SECURITY INSTRUMENTS WHICH EXPRESSLY PROVIDE THAT THEY SHALL BE GOVERNED BY THE LAWS OF ANOTHER JURISDICTION) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NORTH CAROLINA APPLICABLE TO CONTRACTS EXECUTED, AND TO BE FULLY PERFORMED, IN SUCH STATE.

(b) THE BORROWER HEREBY EXPRESSLY AND IRREVOCABLY AGREES AND CONSENTS THAT ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREIN MAY BE INSTITUTED IN ANY STATE OR FEDERAL COURT SITTING IN THE COUNTY OF MECKLENBURG, STATE OF NORTH CAROLINA, UNITED STATES OF AMERICA AND, BY THE EXECUTION AND DELIVERY OF THIS AGREEMENT, THE BORROWER EXPRESSLY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE IN, OR TO THE EXERCISE OF JURISDICTION OVER IT AND ITS PROPERTY BY, ANY SUCH COURT IN ANY SUCH SUIT, ACTION OR PROCEEDING, AND THE BORROWER HEREBY IRREVOCABLY SUBMITS GENERALLY AND UNCONDITIONALLY TO THE JURISDICTION OF ANY SUCH COURT IN ANY SUCH SUIT, ACTION OR PROCEEDING.

(c) THE BORROWER AGREES THAT SERVICE OF PROCESS MAY BE MADE BY PERSONAL SERVICE OF A COPY OF THE SUMMONS AND COMPLAINT OR OTHER LEGAL PROCESS IN ANY SUCH SUIT, ACTION OR PROCEEDING, OR BY REGISTERED OR CERTIFIED MAIL (POSTAGE PREPAID) TO THE ADDRESS OF THE BORROWER PROVIDED IN SECTION 11.2, OR BY ANY OTHER METHOD OF SERVICE PROVIDED FOR UNDER THE APPLICABLE LAWS IN EFFECT IN THE STATE OF NORTH CAROLINA.

(d) NOTHING CONTAINED IN SUBSECTIONS (A) OR (B) HEREOF SHALL PRECLUDE THE AGENT OR ANY LENDER FROM BRINGING ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT IN THE COURTS OF ANY JURISDICTION WHERE THE BORROWER OR ANY OF THE BORROWER'S PROPERTY OR ASSETS MAY

BE FOUND OR LOCATED. TO THE EXTENT PERMITTED BY THE APPLICABLE LAWS OF ANY SUCH JURISDICTION, THE BORROWER HEREBY IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY SUCH COURT AND EXPRESSLY WAIVES, IN RESPECT OF ANY SUCH SUIT, ACTION OR PROCEEDING, OBJECTION TO THE EXERCISE OF JURISDICTION OVER IT AND ITS PROPERTY BY ANY SUCH OTHER COURT OR COURTS WHICH NOW OR HEREAFTER MAY BE AVAILABLE UNDER APPLICABLE LAW.

(e) IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS OR REMEDIES UNDER OR RELATED TO ANY LOAN DOCUMENT OR ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR THAT MAY IN THE FUTURE BE DELIVERED IN CONNECTION THEREWITH, THE BORROWER, THE AGENT AND THE LENDERS HEREBY AGREE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY AND HEREBY IRREVOCABLY WAIVE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT SUCH PERSON MAY HAVE TO TRIAL BY JURY IN ANY SUCH ACTION OR PROCEEDING.

[Signatures on following pages]

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

WATSCO, INC.

WITNESS:

By: /S/ BARRY S. LOGAN

Name: Barry S. Logan
Title: Vice President Finance and Chief Financial
Officer

NATIONSBANK, NATIONAL ASSOCIATION,
as Agent for the Lenders

By: /S/ STEVEN MAYER

Name: Steven Mayer
Title: Vice President

EXHIBIT 11

WATSCO, INC.
 COMPUTATION OF EARNINGS PER SHARE
 QUARTER AND SIX MONTHS ENDED JUNE 30, 1997 AND 1996
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	QUARTER ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	1997	1996	1997	1996
	----	----	----	----
Net income	\$6,363	\$4,256	\$8,645	\$5,562
Less subsidiary preferred stock dividend	(32)	(32)	(64)	(64)
	-----	-----	-----	-----
Income applicable to common stock for primary earnings per share	6,331	4,224	8,581	5,498
Add interest expense, net of income tax effects, attributable to convertible debentures	-	24	-	48
	-----	-----	-----	-----
Income applicable to common stock for fully diluted earnings per share	\$6,331	\$4,248	\$8,581	\$5,546
	=====	=====	=====	=====
Weighted average common shares outstanding	17,217	13,509	16,256	11,939
Additional shares assuming exercise of stock options and warrants	1,023	911	1,066	830
	-----	-----	-----	-----
Shares used for primary earnings per share	18,240	14,420	17,322	12,769
Additional shares assuming: Exercise of stock options and warrants	-	36	-	117
Conversion of 10% Convertible Subordinated Debentures due 1996	-	335	-	335
	-----	-----	-----	-----
Shares used for fully diluted earnings per share	18,240	14,791	17,322	13,221
	=====	=====	=====	=====
Earnings per share:				
Primary	\$.35	\$.29	\$.50	\$.43
	=====	=====	=====	=====
Fully diluted	\$.35	\$.29	\$.50	\$.42
	=====	=====	=====	=====

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE WATSCO, INC. FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

6-MOS

	DEC-31-1996	JUN-30-1997
		6,123
	1,138	
	115,739	
	5,620	
	150,115	
	275,639	
		45,372
	20,127	
	349,213	
61,309		
		68,338
0		
	0	
	8,634	
	204,848	
349,213		
		272,898
	293,685	
		211,125
	227,344	
	50,290	
	798	
	1,567	
	14,150	
	5,505	
8,645		
	0	
	0	
	0	
	8,645	
	0.50	
	0.50	