

SECURITIES AND EXCHANGE COMMISSION
 WASHINGTON, D.C. 20549

FORM S-3

REGISTRATION STATEMENT
 UNDER
 THE SECURITIES ACT OF 1933

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

FLORIDA
 (STATE OR OTHER JURISDICTION OF
 INCORPORATION OR ORGANIZATION)

59-0778222
 (I.R.S. EMPLOYER
 IDENTIFICATION NO.)

2665 SOUTH BAYSHORE DRIVE
 SUITE 901
 MIAMI, FLORIDA 33133
 (305) 858-0828

(Address, including zip code, and telephone number
 including area code, of registrant's principal executive offices)

RONALD P. NEWMAN
 CHIEF FINANCIAL OFFICER
 WATSCO, INC.
 2665 SOUTH BAYSHORE DRIVE
 SUITE 901
 MIAMI, FLORIDA 33133
 (305) 858-0828

(Name, address, including zip code, and telephone number
 including area code, of agent for service)

COPIES OF COMMUNICATION TO:

CESAR L. ALVAREZ, ESQUIRE
 JORGE L. FREELAND, ESQUIRE
 GREENBERG, TRAUIG, HOFFMAN,
 LIPOFF, ROSEN & QUENTEL, P.A.
 1221 BRICKELL AVENUE
 MIAMI, FLORIDA 33131
 (305) 579-0500

E. WILLIAM BATES, II, ESQUIRE
 KING & SPALDING
 120 WEST 45TH STREET, 32ND FLOOR
 NEW YORK, NEW YORK 10036
 (212) 556-2100

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after this registration becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box: []

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest investment plans, check the following box: []

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering: []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: [X]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	NUMBER OF SHARES TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER SHARE(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE(1)
Common Stock, \$.50 par value per share	1,610,000 shares	\$18.25	\$29,382,500	\$10,131.90

(1) Includes 210,000 shares as to which the registrant has granted the Underwriters an option solely to cover over-allotments.
 (2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457 of the Securities Act of 1933.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION - DATED JANUARY 23, 1996

PROSPECTUS

1,400,000 SHARES

WATSCO

COMMON STOCK

Of the 1,400,000 shares of common stock, par value \$.50 per share (the "Common Stock"), offered hereby, 1,000,000 shares are being sold by Watsco, Inc. ("Watsco" or the "Company") and 400,000 shares are being sold by certain selling shareholders of the Company (the "Selling Shareholders"). See "Selling Shareholders." The Company will not receive any of the proceeds from the sale of shares of Common Stock by the Selling Shareholders.

The Company has two classes of common stock: Common Stock and Class B Common Stock. The Common Stock is substantially identical to the Company's Class B Common Stock except with respect to voting power, with the Common Stock having one vote per share, and the Class B Common Stock having ten votes per share. The holders of Common Stock are currently entitled to vote as a separate class to elect 25% of the Board of Directors. See "Risk Factors -- Limited Voting Rights of Common Shareholders; Control by Principal Shareholder."

The Common Stock and the Class B Common Stock are listed on the New York Stock Exchange and American Stock Exchange under the symbols "WSO" and "WSOB," respectively. On January 19, 1996, the last reported sale prices of the Common Stock and Class B Common Stock on the New York Stock Exchange and the American Stock Exchange were \$18.375 and \$18.375 per share, respectively.

SEE "RISK FACTORS" ON PAGE 6 FOR A DISCUSSION OF CERTAIN MATERIAL FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	PRICE TO PUBLIC	UNDERWRITING DISCOUNTS AND COMMISSIONS(1)	PROCEEDS TO COMPANY(2)	PROCEEDS TO SELLING SHAREHOLDERS(2)
Per Share.....	\$	\$	\$	\$
Total(3).....	\$	\$	\$	\$

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- (1) The Company and the Selling Shareholders have agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."
- (2) Before deducting expenses payable by the Company estimated to be \$325,000 and expenses payable by the Selling Shareholders estimated to be \$3,372.
- (3) The Company has granted the several Underwriters a 30-day over-allotment option to purchase up to 210,000 additional shares of the Common Stock on the same terms and conditions as set forth above. If all such additional shares are purchased by the Underwriters, the total Price to Public will be \$_____, the total Underwriting Discounts and Commissions will be

\$ _____, the total Proceeds to Company will be \$ _____ and the total Proceeds to Selling Shareholders will be \$ _____. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters subject to delivery by the Company and the Selling Shareholders and acceptance by the Underwriters, to prior sale and to withdrawal, cancellation or modification of the offer without notice. Delivery of the shares to the Underwriters is expected to be made at the office of Prudential Securities Incorporated, One New York Plaza, New York, New York, on or about February , 1996.

PRUDENTIAL SECURITIES INCORPORATED

February , 1996

Map of the United States color coded for air conditioning usage (in hours) per year according to Consumer Reports and the Company's and Three States' distribution locations.

- /+ inside open circle/ - Three States Supply Company, Inc. locations
- /bullet/ - Watsco locations

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK AND/OR CLASS B COMMON STOCK AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE, THE AMERICAN STOCK EXCHANGE OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND RELATED NOTES APPEARING ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, THE INFORMATION IN THIS PROSPECTUS (I) HAS BEEN ADJUSTED TO REFLECT A 5% STOCK DIVIDEND PAID ON APRIL 30, 1992 AND A THREE-FOR-TWO STOCK SPLIT EFFECTED ON MAY 15, 1995 AND (II) ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION WILL NOT BE EXERCISED.

THE COMPANY

Watsco, Inc. ("Watsco" or the "Company") is the largest independent distributor of residential central air conditioners in the United States, with leading positions in Florida, Texas and California, the three largest air conditioning markets in the country, as well as significant positions in Alabama, Arkansas, Arizona, Louisiana, Nevada and North Carolina. In 1989, the Company embarked on a strategy of establishing a network of distribution facilities across the sunbelt where U.S. population growth is greatest, weather patterns are predictably hot and air conditioning is seen as a necessity. Since initiating this strategy, the Company's revenues have increased from \$25 million in 1988 to \$284 million in 1994 and earnings per share have increased at a compound annual growth rate of 22%. Watsco has acquired eight air conditioning distributors and believes it is the only company pursuing a consolidation strategy by making significant acquisitions in the highly fragmented air conditioning distribution industry. The Company achieved internal sales growth of 16% and 10% for 1994 and the nine months ended September 30, 1995, respectively.

According to the Air Conditioning and Refrigeration Institute ("ARI"), manufacturers' sales of residential central air conditioners in the United States were approximately \$4.3 billion in 1994 and have grown at an annual rate of 5.5% since 1990. The replacement market has increased substantially in size over the past ten years, surpassing the homebuilding market in significance as a result of the aging of the installed base of residential central air conditioners, the introduction of new energy efficient models and the upgrading of existing homes to central air conditioning. According to the ARI, over 61 million central air conditioner units have been installed in the United States since 1975. Many of the units installed from the mid-1970s to the mid-1980s are reaching the end of their useful lives, thus providing a growing replacement market. The Company also sells to the homebuilding market and is well positioned to benefit from increases in housing starts.

The Company focuses on satisfying the needs of the higher margin replacement market, where customers demand immediate, convenient and reliable service. The Company believes that its size and financial resources allow it to provide superior customer service by offering a complete product line of equipment, parts and supplies, multiple warehouse locations and well-stocked inventories. The Company sells its products from 70 branch warehouses to over 13,600 air conditioning and heating contractors and dealers. The Company also produces over 4,000 electronic and mechanical components for air conditioning, heating and refrigeration equipment that are sold to over 5,000 wholesale distributors and original equipment manufacturers ("OEMs").

Recently, the Company has accelerated its acquisition activity. In 1995, Watsco acquired four distributors which reported aggregate 1994 revenues of approximately \$47 million. All of the Company's significant acquisitions to date have been nondilutive to its shareholders. In December 1995, the Company entered into a letter of intent to acquire Three States Supply Company, Inc. ("Three States"), a Memphis, Tennessee based distributor of building materials used primarily in the air conditioning and heating industry. Three States reported revenues of approximately \$45 million in 1994. The Company believes that Three States serves over 5,000 customers from its nine locations in Tennessee, Arkansas, Mississippi, Alabama and Missouri. The Company's acquisition of Three States is subject to various conditions, including the negotiation of an asset purchase agreement, and accordingly there can be no assurance that such purchase will be consummated. For additional information regarding the Company's acquisition of Three States, see "Business - Three States Acquisition," "Selected Financial Data" and Unaudited Pro Forma Combined Financial Statements.

The Company also owns Dunhill Personnel System, Inc. ("Dunhill"), a well-known provider of permanent and temporary personnel services to business, professional and service organizations, government agencies, health care providers, and other employers. As of December 31, 1995, Dunhill had 138 franchisees and licensees and 14 Company-owned offices in 38 states, Puerto Rico and Canada and accounted in the nine months ended September 30, 1995 for less than 10% of the Company's revenues.

The Company's principal executive offices are located at 2665 South Bayshore Drive, Suite 901, Miami, Florida 33133, and its telephone is (305) 858-0828. Unless the context otherwise requires, the terms "Watsco" and the "Company" as used in this Prospectus refer to Watsco, Inc. and its subsidiaries.

THE OFFERING

Common Stock Offered by the:

Company.....	1,000,000 shares
Selling Shareholders.....	400,000 shares

Common Stock to be Outstanding after the Offering(1):

Common Stock.....	5,801,536 shares
Class B Common Stock.....	1,480,681 shares
Total.....	7,282,217 shares

Use of Proceeds by the Company.....	To acquire Three States, to repay a portion of the Company's outstanding borrowings under its revolving credit facilities, and for general corporate purposes, including possible future acquisitions. The acquisition of Three States is not contingent upon the consummation of this offering.
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Common Stock - New York Stock Exchange Symbol.....	WSO
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Class B Common Stock - American Stock Exchange Symbol.....	WSOB
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(1) Assumes, as of December 31, 1995, (i) no exercise of outstanding options to purchase an aggregate of 724,780 shares of the Company's Common Stock, and 337,366 shares of the Company's Class B Common Stock, par value \$.50 per share ("Class B Common Stock"), and (ii) no conversion of the Company's outstanding 10% Convertible Subordinated Debentures due 1996 ("Convertible Debentures"), which are convertible into 223,225 shares of Class B Common Stock.

SUMMARY FINANCIAL INFORMATION
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED DECEMBER 31,				NINE MONTHS ENDED SEPTEMBER 30,		
	1992	1993	1994	PRO FORMA 1994(1)	1994	1995	PRO FORMA, AS ADJUSTED 1995(1)
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				(UNAUDITED)			
INCOME STATEMENT DATA:							
Total revenues.....	\$194,633	\$230,656	\$283,731	\$328,672	\$213,884	\$250,190	\$286,424
Gross profit(2).....	45,559	51,930	63,212	73,651	48,666	56,547	65,152
Operating income.....	9,930	11,390	15,043	17,108	12,630	15,527	17,337
Net income.....	2,918	5,041(3)	5,762	7,159	4,923	6,033	7,277
Earnings per share:							
Primary.....	\$.70	\$.85(3)	\$.89	\$.96	\$.77	\$.91	\$.96
Fully diluted(4).....	.64	.82(3)	.87	.94	.74	.87	.92
Supplemental earnings per share:							
Primary.....		\$.73(3)					
Fully Diluted.....		.71(3)					
Weighted average shares outstanding:							
Primary.....	4,159	5,869	6,326	7,326	6,308	6,508	7,508
Fully diluted(4).....	5,091	6,339	6,646	7,646	6,604	6,930	7,930

SEPTEMBER 30, 1995

(UNAUDITED)

	ACTUAL	PRO FORMA, AS ADJUSTED(5)

BALANCE SHEET DATA:

Working capital.....	\$ 44,985	\$ 58,928
Total assets.....	147,565	167,856
Long-term obligations.....	7,867	7,867
Minority interests.....	12,780	12,780
Shareholders' equity.....	52,604	69,504

- (1) Gives effect to the Three States acquisition and the issuance of 1,000,000 shares of Common Stock offered hereby by the Company as if they occurred as of the beginning of the period shown. There can be no assurance that the Three States acquisition will be consummated. See "Business - Three States Acquisition."
- (2) Total revenues less cost of sales and direct service expenses.
- (3) Historical net income and earnings per share information includes the effect of a non-recurring receipt of insurance proceeds, which increased net income by \$706,000. The supplemental earnings per share information excluding this item is \$.73 and \$.71 for primary and fully diluted earnings per share, respectively.
- (4) Calculated assuming conversion of the Convertible Debentures.
- (5) Gives effect to the Three States acquisition as if it occurred on September 30, 1995 and the sale of 1,000,000 shares of Common Stock offered hereby by the Company at an assumed offering price of \$18.375 per share (the last reported sale price of the Common Stock on January 19, 1996) after deducting estimated underwriting discounts and commissions and offering expenses payable by the Company and the application of the net proceeds therefrom. See "Use of Proceeds" and "Capitalization." Excluding the Three States acquisition but giving effect to the offering as if it had occurred on September 30, 1995, at that date the Company would have as adjusted total assets of \$150,956.

RISK FACTORS

Prospective investors should carefully consider the following risk factors, which can affect the Company's current position and future prospects, in addition to the other information set forth in this Prospectus in connection with an investment in the shares of Common Stock offered hereby.

DEPENDENCE ON KEY SUPPLIER. The Company's primary supplier for central air conditioners is Rheem Manufacturing Company ("Rheem"). The Company's distribution subsidiaries (other than Heating & Cooling Supply, Inc. ("Heating & Cooling")) have distribution agreements with Rheem. Two of the distribution agreements will expire in 1998, and the third can be terminated at any time without cause by either party. Heating & Cooling's distribution agreement expired in September 1995. Heating & Cooling continues to distribute Rheem products, and the Company expects that Heating & Cooling will enter into a new distribution agreement with Rheem on substantially similar economic terms. Under the distribution agreements, certain of the distribution subsidiaries have restrictions on the sale of other manufacturers' products. In 1994 and in the nine months ended September 30, 1995, purchases of Rheem products represented approximately 57% and 55%, respectively, of the aggregate purchases of the Company's distribution subsidiaries. Any significant interruption in the delivery of Rheem's products would inhibit the Company's ability to continue to maintain its current inventory levels and could adversely affect the Company's business. The Company's future results of operations are also materially dependent upon the continued market acceptance of Rheem products and the ability of Rheem to continue to manufacture products that comply with laws relating to environmental and efficiency standards. See "Business -- Relationship with Rheem Manufacturing Company."

PUT/CALL AGREEMENTS WITH RHEEM MANUFACTURING COMPANY. Rheem owns an equity interest in certain of the Company's distribution subsidiaries that accounted for approximately 84% and 89% of the Company's revenues and operating income (excluding unallocated corporate overhead), respectively, for the nine months ended September 30, 1995. Rheem is a 20% shareholder of Gemaire Distributors, Inc. ("Gemaire") and Comfort Supply, Inc. ("Comfort Supply") and a 50% shareholder of Heating & Cooling. Prior to January 1, 1996, shareholder agreements between the Company and Rheem with respect to Gemaire, Heating & Cooling and Comfort Supply provided that, annually (for Gemaire and Heating & Cooling) and after December 31, 1996 (for Comfort Supply), for the 90-day period (the "Election Period") immediately following the issuance of the Gemaire, Heating & Cooling and Comfort Supply audited financial statements (which are generally issued in March of each year), the Company can "put" its ownership interest in any of Gemaire, Heating & Cooling and Comfort Supply to Rheem, and Rheem can "call" the Company's ownership interest in any of Gemaire, Heating & Cooling and Comfort Supply, at a price based on a valuation formula. On January 1, 1996, the Company and Rheem amended all three agreements delaying Rheem's right to call Watsco's ownership interest in all three subsidiaries until the Election Period in 1998. See Note 10 to the Company's Consolidated Financial Statements.

An exercise of the put/call options can result in the sale of Gemaire, Heating & Cooling or Comfort Supply at a price below the value of such subsidiary at the time of sale. There can be no assurance that the Company will be able to satisfactorily reinvest proceeds from the sale of a subsidiary to acquire attractive businesses or that such proceeds would be sufficient to acquire businesses comparable to the one(s) sold. In addition, the sale of the subsidiaries would significantly decrease the Company's revenues and net income from the date of any such sale. See "Business -- Relationship with Rheem Manufacturing Company."

LIMITED VOTING RIGHTS OF COMMON SHAREHOLDERS; CONTROL BY PRINCIPAL SHAREHOLDER. Holders of Common Stock are entitled to one vote per share on all matters submitted to a vote of shareholders and holders of Class B Common Stock are entitled to ten votes per share. The holders of Common Stock are currently entitled to vote as a separate class to elect 25% of the Company's Board of Directors and the holders of the Class B Common Stock are currently entitled to vote as a separate class to elect the remaining 75% of the directors. Upon completion of this offering, Albert H. Nahmad, the Company's Chairman and President, and a limited partnership controlled by him, collectively will retain beneficial ownership of approximately 6.9% of the Common Stock and 60.4% of the Class B Common Stock and will have approximately 35.1% of the combined voting power of the outstanding Common Stock and Class B Common Stock. Mr. Nahmad will continue to have the voting power to elect all but three members of the Company's nine-person Board of Directors.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 1,000,000 shares of Common Stock offered by the Company hereby, assuming an offering price of \$18.375 per share (the last reported sale price of the Common Stock on January 19, 1996) and after deducting estimated underwriting discounts and commissions and offering expenses payable by the Company, are anticipated to be approximately \$16.9 million (\$20.5 million if the Underwriters' over-allotment option is exercised in full). The Company intends to use a portion of its net proceeds to purchase the assets and assume certain liabilities of Three States at an anticipated purchase price of approximately \$14 million. The Company anticipates using the remainder of the net proceeds to repay a portion of the Company's outstanding borrowings under its revolving credit facilities, for potential acquisitions and for general corporate purposes.

The acquisition of Three States is not contingent upon the completion of this offering. If the Three States acquisition is not consummated, the Company anticipates using the proceeds allocated for such use to repay a portion of the Company's outstanding borrowings under its revolving credit facilities.

The indebtedness of the Company to be repaid will include up to \$2.9 million (\$16.9 million if the Three States acquisition is not consummated) of revolving credit borrowings under the Company's various existing bank credit facilities. At December 31, 1995, such indebtedness bore interest at floating rates ranging from 6.6% to 6.8% (a weighted average interest rate of 6.7% at December 31, 1995) with maturity dates ranging from June 30, 1996 to December 31, 1998. See Note 4 to the Company's Consolidated Financial Statements. In 1995, the Company incurred indebtedness of \$11.9 million under its revolving credit facilities for acquisitions and additional borrowings were used primarily to fund working capital requirements of the Company's distribution subsidiaries.

Pending application of the net proceeds as described above, the Company intends to invest the net proceeds in short-term investment grade or U.S. government interest bearing securities.

The Company continually evaluates potential acquisitions and has had discussions with a number of potential acquisition candidates; however, the Company has no agreement with respect to any potential acquisition other than Three States. Should suitable acquisitions or working capital needs arise that would require additional financing, the Company believes that its financial position and earnings history provide a solid basis for obtaining additional financing resources at competitive rates and terms.

The Company will not receive any of the proceeds from the sale of shares of Common Stock being offered by the Selling Shareholders. See "Selling Shareholders."

CAPITALIZATION

The following table sets forth the total capitalization (including short term debt) of the Company as of September 30, 1995 and on a pro forma basis giving effect to (i) the issuance and sale of the 1,000,000 shares of Common Stock offered by the Company hereby at an assumed offering price of \$18.25 per share (the last reported sale price of the Common Stock on January 17, 1996), after deduction of estimated underwriting discounts and commissions and offering expenses payable by the Company and the application of the estimated net proceeds therefrom and (ii) the Three States acquisition. See "Use of Proceeds." There can be no assurance that the Three States acquisition will be consummated. This table should be read in conjunction with the Consolidated Financial Statements of the Company and of Three States and the related notes, the pro forma financial information and other financial information included elsewhere in this Prospectus.

SEPTEMBER 30, 1995		
(UNAUDITED)		
	ACTUAL	PRO FORMA, AS ADJUSTED
	(IN THOUSANDS, EXCEPT SHARE DATA)	
Current portion of long-term obligations.....	\$ 744	\$ 744
Borrowings under revolving credit agreements(1).....	49,433	49,433
	50,177	50,177
Long-term obligations:		
Bank and other debt.....	4,026	4,026
12% Subordinated Note due 1998.....	2,500	2,500
10% Convertible Subordinated Debentures due 1996.....	1,341	1,341
Total long-term obligations.....	7,867	7,867
Shareholders' equity:		
Common Stock, \$.50 par value, 40,000,000 shares authorized; 4,783,129 issued and outstanding; 5,783,129 issued and outstanding, as adjusted(2).....	2,392	2,892
Class B Common Stock, \$.50 par value, 4,000,000 shares authorized; 1,485,171 issued and outstanding(2).....	742	742
Paid-in capital.....	19,205	35,605
Retained earnings.....	30,265	30,265
Total shareholders' equity.....	52,604	69,504
Total capitalization.....	\$110,648	\$127,548

(1) Assumes cash consideration of \$16.3 million for the acquisition of the assets and assumption of certain liabilities of Three States as of September 30, 1995. Since September 30, 1995, Three States has paid down certain indebtedness, which reduced its net assets, and the Company anticipates that the cash consideration to be paid by it for the assets and assumption of certain liabilities of Three States in the first quarter of 1996 will be approximately \$14 million.

(2) Does not include, as of September 30, 1995, (i) 720,583 shares of Common Stock and 338,153 shares of Class B Common Stock issuable upon the exercise of outstanding stock options, and (ii) 223,225 shares of Class B Common Stock issuable upon conversion of the Company's Convertible Debentures.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock has been listed on the New York Stock Exchange under the symbol "WSO" since June 1994. Prior to such time, the Company's Common Stock was listed on the American Stock Exchange under the symbol "WSOA." At the time of the listing of the Common Stock on the New York Stock Exchange, the Company's "Class A" Common Stock was redesignated Common Stock. The Company's Class B Common Stock is listed on the American Stock Exchange under the symbol "WSOB."

The following table sets forth the high and low sale prices of the Common Stock from January 1, 1993 to June 15, 1994 as reported by the American Stock Exchange; the high and low sale prices of the Common Stock from June 16, 1994 to present as reported by the New York Stock Exchange; and the high and low sale prices of the Class B Common Stock as reported by the American Stock Exchange for the periods indicated (in each case rounded to the nearest eighth, after adjusting for the three-for-two stock split effected on May 15, 1995).

	COMMON STOCK		CLASS B COMMON STOCK	
	HIGH	LOW	HIGH	LOW
1993				
First Quarter.....	\$ 9 1/8	\$ 7 5/8	\$ 9 1/4	\$ 7 3/4
Second Quarter.....	10 1/2	8 7/8	10 1/2	8 7/8
Third Quarter.....	11 3/8	9 1/8	11 1/8	9 3/8
Fourth Quarter.....	9 3/4	7 7/8	9 7/8	8 1/4
1994				
First Quarter.....	10 1/4	8 5/8	10 1/4	8 7/8
Second Quarter.....	11 3/8	9 5/8	11 1/4	9 7/8
Third Quarter.....	11 3/8	10 1/8	11 1/8	10 3/8
Fourth Quarter.....	11 1/8	10 3/8	11	10 1/4
1995				
First Quarter.....	11 7/8	10 1/2	11 5/8	10 5/8
Second Quarter.....	13 3/4	11 3/4	13 1/2	11 5/8
Third Quarter.....	17 3/8	13 3/8	16 3/4	13 1/2
Fourth Quarter.....	17 7/8	16 3/8	17 1/2	16
1996				
First Quarter (through January 19, 1996).....	18 3/4	17 3/4	18 7/8	17 3/8

On January 19, 1996, the last reported sale prices for the Common Stock and the Class B Common Stock on the New York Stock Exchange and the American Stock Exchange were \$18 3/8 and \$18 3/8 per share, respectively.

SELECTED FINANCIAL DATA
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

The following selected financial data have been derived from the Company's Consolidated Financial Statements which have been audited by Arthur Andersen LLP, independent certified public accountants. The selected financial data as of September 30, 1995 and for the nine months ended September 30, 1994 and 1995 have been derived from the unaudited consolidated financial statements of the Company. In the Company's opinion, such consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for such periods. The results of operations for the nine months ended September 30, 1995 are not necessarily indicative of results that may be expected for the full year. The selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

The selected pro forma financial information presented below is derived from the Unaudited Pro Forma Combined Financial Statements appearing elsewhere herein, which give effect to: (i) the potential Three States acquisition, using the purchase method of accounting, and (ii) the issuance and sale of the Common Stock offered hereby, and the application of the net proceeds therefrom. The acquisition of Three States is subject to various conditions, including the negotiation of an asset purchase agreement, and accordingly there can be no assurance that such acquisition will be consummated. The pro forma information is presented for illustrative purposes only and is not necessarily indicative of the operating results or financial position that would have occurred if the Three States acquisition had been consummated, nor necessarily indicative of the future operating results or financial position of the Company. The pro forma information should be read in conjunction with the Unaudited Pro Forma Combined Financial Statements.

	YEARS ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,			PRO FORMA, AS ADJUSTED 1995(1)
	1990	1991	1992	1993	1994	(UNAUDITED)		1994	
						PRO FORMA 1994(1)			
						(UNAUDITED)			
INCOME STATEMENT DATA:									
Total revenues.....	\$117,749	\$169,318	\$194,633	\$230,656	\$283,731	\$328,672	\$213,884	\$250,190	\$286,424
Gross profit(2)....	30,470	40,906	45,559	51,930	63,212	73,651	48,666	56,547	65,152
Operating income...	7,006	8,576	9,930	11,390	15,043	17,108	12,630	15,527	17,337
Interest expense...	(2,896)	(4,059)	(3,197)	(2,756)	(3,155)	(3,155)	(2,278)	(3,064)	(3,064)
Insurance proceeds.	--	--	--	1,130	--	--	--	--	--
Income taxes.....	(1,531)	(1,973)	(2,746)	(3,819)	(4,630)	(5,531)	(4,065)	(4,867)	(5,676)
Minority interests(3).....	(728)	(1,010)	(1,470)	(1,287)	(1,636)	(1,636)	(1,446)	(1,744)	(1,744)
Net income.....	1,975	1,990	2,918	5,041(4)	5,762	7,159	4,923	6,033	7,277
Earnings per share:									
Primary.....	\$.61	\$.50	\$.70	\$.85(4)	\$.89	\$.96	\$.77	\$.91	\$.96
Fully diluted(5).	.56	.48	.64	.82(4)	.87	.94	.74	.87	.92
Weighted average shares outstanding:									
Primary.....	3,190	3,987	4,159	5,869	6,326	7,326	6,308	6,508	7,508
Fully diluted(5).	4,141	4,929	5,091	6,339	6,646	7,646	6,604	6,930	7,930
Cash dividends declared per share:									
Common Stock.....	\$.19	\$.22	\$.15	\$.16	\$.17		\$.13	\$.14	
Class B Common Stock	.17	.20	.14	.16	.17		.13	.14	

	YEARS ENDED DECEMBER 31,					SEPTEMBER 30, 1995		PRO FORMA, AS ADJUSTED(6)
	1990	1991	1992	1993	1994	(UNAUDITED)		
						ACTUAL		
BALANCE SHEET DATA:								
Working capital.....	\$22,048	\$23,763	\$27,800	\$ 39,262	\$ 40,095	\$ 44,985	\$58,928	
Total assets.....	82,322	81,767	81,138	109,685	119,664	147,565	167,856	
Long-term obligations.	16,867	14,830	13,539	7,848	6,724	7,867	7,867	
Minority interests....	6,637	7,373	8,229	11,553	11,857	12,780	12,780	
Shareholders' equity..	18,935	20,832	25,272	41,754	46,816	52,604	69,504	

(1) Gives effect to the Three States acquisition and the issuance of 1,000,000 shares of Common Stock offered hereby by the Company as if they occurred as of the beginning of the period shown. There can be no assurance that the Three States acquisition will be consummated. See "Business - Three States Acquisition."

- (2) Total revenues less cost of sales and direct service expenses.
- (3) Represents the pro rata share of earnings allocated to Rheem as a result of its 20% ownership interests in Gemaire and Comfort Supply and 50% ownership interest (49.5% prior to January 1, 1992) in Heating & Cooling. See Note 1 to the Company's Consolidated Financial Statements.
- (4) Includes the effect of a non-recurring receipt of insurance proceeds, which increased net income by \$706,000. Excluding this item, primary and fully diluted earnings per share would have been \$.73 and \$.71, respectively.
- (5) Calculated assuming conversion of the Convertible Debentures.
- (6) Gives effect to the Three States acquisition as if it occurred on September 30, 1995 and the sale of 1,000,000 shares of Common Stock offered hereby by the Company at an assumed offering price of \$18.375 per share (the last reported sale price of the Common Stock on January 19, 1996) after deducting estimated underwriting discounts and commissions and offering expenses payable by the Company and the application of the net proceeds therefrom. See "Use of Proceeds" and "Capitalization." Excluding the Three States acquisition but giving effect to the offering as if it had occurred on September 30, 1995, at that date the Company would have as adjusted total assets of \$150,956.

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

GENERAL

From its inception through 1988, Watsco was primarily a manufacturer of replacement parts for air conditioning, heating and refrigeration equipment. In January 1989, the Company significantly increased its presence in the climate control industry through its acquisition of 80% (and Rheem acquired 20%) of the capital stock of Gemaire, a distributor of residential central air conditioners in Florida, for an aggregate of approximately \$17.1 million. In October 1990, the Company acquired 50% and Rheem acquired 50% of the capital stock of Heating & Cooling, a distributor of residential central air conditioners in southern California, Arizona and Nevada, for an aggregate of approximately \$31.5 million. In April 1993, the Company acquired 80% and Rheem acquired 20% of the capital stock of Comfort Supply, a distributor of residential central air conditioners in Texas, for an aggregate of approximately \$4.0 million. In March 1995, Gemaire purchased the operating assets and assumed certain liabilities of H.B. Adams, Inc., a wholesale distributor of air conditioning, heating and refrigeration products located in Tampa, Florida, for approximately \$7.8 million. In October 1995, the Company purchased the operating assets and assumed certain liabilities of Central Air Conditioning Distributors, Inc. ("Central Air Conditioning"), a North Carolina-based distributor of air conditioning, heating and refrigeration products, for approximately \$9.0 million. The Company signed a letter of intent in December 1995 to acquire the assets and assume certain liabilities of Three States, a Tennessee-based wholesale distributor of air conditioning, heating and building supplies. Other smaller acquisitions have been made over the past three years to gain market share and to enter into new market areas.

RESULTS OF OPERATIONS

The following table presents for the periods indicated certain items of the Company's Consolidated Financial Statements for the years ended December 31, 1993 and 1994 and for the nine months ended September 30, 1994 and 1995, expressed as a percentage of total revenues:

	YEARS ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	
	1993(1)	1994	1994	1995
	(UNAUDITED)			
Total revenues.....	100.0%	100.0%	100.0%	100.0%
Cost of sales and direct service expenses.....	77.5	77.7	77.2	77.4
Gross profit.....	22.5	22.3	22.8	22.6
Selling, general and administrative expenses.....	17.6	17.0	16.8	16.4
Operating income.....	4.9	5.3	6.0	6.2
Investment income, net.....	.2	--	--	.1
Interest expense.....	1.2	1.1	1.1	1.2
Income taxes.....	1.4	1.6	1.9	2.0
Minority interests.....	.6	.6	.7	.7
Net income.....	1.9%	2.0%	2.3%	2.4%

(1) Excludes non-recurring income from the receipt of insurance proceeds.

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 1995 WITH NINE MONTHS ENDED
SEPTEMBER 30, 1994

Revenues for the nine months ended September 30, 1995 increased \$36.3 million, or 17%, compared to the same period in 1994. The distribution subsidiaries' revenues increased \$35.1 million, or 20%. Excluding the effect of acquisitions, revenues for the distribution subsidiaries increased \$17.7 million, or 10%. This increase in sales was mainly due to increased sales of replacement air conditioners in each of the Company's primary

distribution markets. Revenues in the Company's manufacturing operations increased \$134,000, or 1%, primarily due to new product offerings to aftermarket customers which have more than offset lower sales to overstocked OEM customers. Revenues in the personnel services operations increased \$1.0 million, or 5%, reflecting higher demand for temporary help services and greater customer acceptance of new product offerings such as professional staffing and technical temporaries.

Gross profit for the nine months ended September 30, 1995 increased \$7.9 million, or 16%, as compared to the same period in 1994. Excluding the effect of acquisitions, gross profit increased \$3.9 million, or 8%, primarily as a result of the aforementioned revenue increases. Gross profit margin for the nine month period decreased to 22.6% in 1995 from 22.8% in 1994, with 1995 acquisitions having no effect on gross profit margin. These decreases were primarily due to the increased sale of lower margin products by the distribution subsidiaries and new product start-up costs in the manufacturing operations.

Selling, general and administrative expenses for the nine months ended September 30, 1995 increased \$5.0 million, or 14%, compared to the same period in 1994, primarily due to selling and delivery costs related to increased sales. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$2.1 million, or 6%, also due to revenue increases. Selling, general and administrative expenses as a percent of revenues decreased to 16.4% in 1995 from 16.8% in 1994, with 1995 acquisitions having no effect on such percentage. This decrease was the result of a larger revenue base over which to spread fixed costs.

Interest expense for the nine months ended September 30, 1995 increased \$786,000, or 35%, compared to the same period in 1994, due to higher interest rates and additional borrowings used to finance acquisitions and increased inventory levels required by sales growth and stocking requirements in new branch locations. Excluding the effect of acquisitions, interest expense increased \$444,000, or 19%, primarily due to higher interest rates and higher average monthly borrowings.

The effective tax rate for the nine months ended September 30, 1995 was 38.5% compared to 39.0% for the same period in 1994. The decrease is primarily a result of a proportionately larger share of taxable income generated in states with higher tax rates during 1994 as compared to 1995.

COMPARISON OF YEAR ENDED DECEMBER 31, 1994 WITH YEAR ENDED DECEMBER 31, 1993

Revenues in 1994 increased \$53.1 million, or 23%, over 1993. In the distribution subsidiaries, revenues increased \$48.3 million, or 27%. Excluding the effect of acquisitions, revenues for the distribution subsidiaries increased \$28.6 million, or 16%. This increase in sales was mainly due to hot weather in the western market, strong replacement sales in Florida and increased export sales. Revenues in the Company's manufacturing operations increased \$2.1 million, or 10%, primarily due to the introduction of new products. Revenues in the personnel services segment increased \$2.7 million, or 10%, reflecting greater demand for temporary help services.

Gross profit in 1994 increased \$11.3 million, or 22%, over the prior year. Excluding the effect of acquisitions, gross profit increased \$7.3 million, or 14%, primarily as a result of the increase in revenues described above. Gross profit margin decreased from 22.5% in 1993 to 22.3% in 1994 with acquisitions not changing gross profit margin significantly.

Selling, general and administrative expenses in 1994 increased \$7.6 million, or 19%, over the prior year, primarily due to the full year effect of the 1993 acquisitions. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$4.0 million, or 10%, from the prior year due to increased selling and delivery costs caused by increased sales. As a percentage of revenues, selling, general and administrative expenses decreased from 17.6% in 1993 to 17.0% in 1994 and, excluding the effect of acquisitions, decreased from 17.6% in 1993 to 16.9% in 1994. This decrease was the result of a larger revenue base over which to spread fixed costs.

Other income in 1993 includes the non-recurring receipt of insurance proceeds of \$1.1 million for business interruption claims related to Hurricane Andrew.

Interest expense in 1994 increased \$399,000, or 14%, from the prior year due to higher borrowings from acquired businesses and interest rate increases during 1994.

The effective income tax rate in 1994 increased to 38.5% compared to 37.6% in the prior year. The increase was primarily a result of the proportionately larger share of taxable income generated in higher tax rate states in 1994 compared to 1993.

LIQUIDITY AND CAPITAL RESOURCES

The Company has adequate availability of capital from operations and revolving credit facilities to fund current operations and anticipated growth, including expansion in the Company's current and targeted market areas, through 1996. At November 30, 1995, the Company's subsidiaries had aggregate borrowing commitments from lenders under existing revolving credit agreements of \$70.0 million, of which \$12.2 million was unused and available. The weighted average interest rate for these commitments is 6.7%. The total amount of borrowing commitments expiring in 1996 is \$12.0 million.

Certain of the subsidiaries' revolving credit agreements contain provisions limiting the payment of dividends to their shareholders. The Company does not anticipate that these limitations on dividends will have a material effect on the Company's ability to meet its cash obligations. For a discussion of the financial and other terms of the revolving credit facilities, see Note 4 to the Company's Consolidated Financial Statements.

Working capital increased to \$45.0 million at September 30, 1995 from \$40.1 million at December 31, 1994 due to higher levels of accounts receivable caused by higher sales volume and improved cash flow which lowers the amount of inventory financed by revolving credit facilities.

Cash and cash equivalents increased \$1.4 million during the nine months ended September 30, 1995. Principal sources of cash were profitable operations, increased borrowings under revolving credit agreements, and proceeds from the sale of marketable securities, primarily consisting of tax exempt municipal bonds. The principal uses of cash were to fund acquisitions, finance capital expenditures, reduce long-term obligations and fund working capital needs. Inventory purchases are substantially funded by borrowings under the subsidiaries' revolving credit agreements.

The Company expects to use a portion of the net proceeds of this offering to pay for the acquisition of Three States. However, the acquisition of Three States is not contingent upon the completion of this offering. In the event this offering is not consummated, or if the net proceeds are not equal to the purchase price, the Company has received indications from its lenders that it will be able to obtain financing for the acquisition.

The Company continually evaluates potential acquisitions and has had discussions with a number of potential acquisition candidates; however, the Company has no agreement with respect to any potential acquisition other than Three States. Should suitable acquisitions or working capital needs arise that would require additional financing, the Company believes that its financial position and earnings history provide a solid basis for obtaining additional financing resources at competitive rates and terms.

SEASONALITY

Sales of residential central air conditioners, heating equipment and parts and supplies manufactured and distributed by the Company have historically been seasonal. Demand related to the residential replacement market generally peaks in the third quarter for air conditioners (the Company's principal distribution product) and in the fourth quarter for heating equipment. Demand related to the new construction market varies according to the season, with increased demand generally from March through October. See Note 14 to the Company's Consolidated Financial Statements.

BUSINESS

GENERAL

The Company is the largest independent distributor of residential central air conditioners in the United States, with leading positions in Florida, Texas and California, the three largest air conditioning markets in the country, as well as significant positions in Alabama, Arkansas, Arizona, Louisiana, Nevada and North Carolina. In 1989, the Company embarked on a strategy of establishing a network of distribution facilities across the sunbelt where U.S. population growth is greatest, weather patterns are predictably hot and air conditioning is seen as a necessity. Since initiating this strategy, the Company's revenues have increased from \$25 million in 1988 to \$284 million in 1994 and earnings per share have increased at a compound annual growth rate of 22%. Watsco has acquired eight air conditioning distributors and believes it is the only company pursuing a consolidation strategy by making significant acquisitions in the highly fragmented air conditioning distribution industry. The Company achieved internal sales growth of 16% and 10% for 1994 and the nine months ended September 30, 1995, respectively.

The following table sets forth for the periods indicated revenues and operating income (net income before interest expense, net investment income, insurance proceeds and unallocated corporate overhead expenses) attributable to the Company's businesses (in thousands):

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1994	1995
				(UNAUDITED)	
REVENUES:					
Climate control segment:					
Distribution.....	\$146,269	\$181,524	\$229,796	\$174,110	\$209,241
Manufacturing.....	22,871	21,543	23,637	17,314	17,448
Total climate control segment.....	169,140	203,067	253,433	191,424	226,689
Personnel services segment.....	25,493	27,589	30,298	22,460	23,501
Total.....	\$194,633	\$230,656	\$283,731	\$213,884	\$250,190
OPERATING INCOME:					
Climate control segment:					
Distribution.....	\$ 9,873	\$11,456	\$14,656	\$12,038	\$15,233
Manufacturing.....	2,280	1,133	1,745	1,479	1,040
Total climate control segment.....	12,153	12,589	16,401	13,517	16,273
Personnel services segment.....	(131)	422	1,216	1,033	882
Total.....	\$12,022	\$13,011	\$17,617	\$14,550	\$17,155

RESIDENTIAL CENTRAL AIR CONDITIONING INDUSTRY

According to the ARI, manufacturers' sales of residential central air conditioners in the United States were approximately \$4.3 billion in 1994 and have grown at an annual rate of 5.5% since 1990. Residential central air conditioners are manufactured primarily by seven major companies that account for a substantial majority

of the units shipped. These companies are: Carrier Air Conditioning, Inc., Rheem Manufacturing Company, Lennox Industries, Inc., The Trane Company, Inter-City Products Corporation, York Air Conditioning & Refrigeration, Inc., and Goodman Manufacturing Corporation.

The major manufacturers distribute their products primarily through independent distributors who in turn supply the equipment and related parts and supplies to contractors and dealers nationwide who sell to, and install the products for, the consumer. Several of the major manufacturers distribute a significant portion of their products through factory-owned distribution organizations. Rheem distributes substantially all of its central air conditioners through independent distributors.

Residential central air conditioners are sold to the replacement and the homebuilding markets. The replacement market has increased substantially in size over the past ten years, surpassing the homebuilding market in significance as a result of the aging of the installed base of residential central air conditioners, the introduction of new energy efficient models and the upgrading of existing homes to central air conditioning. According to the ARI, over 61 million central air conditioners have been installed in the United States since 1975. Many of the units installed from the mid-1970s to the mid-1980s are reaching the end of their useful lives, thus providing a growing replacement market. The mechanical life of central air conditioners varies by region due to usage and is estimated to range from 8 to 12 years in Florida and Texas to approximately 18 years in California.

BUSINESS STRATEGY

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

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

The Company's acquisition strategy is to establish a network of distribution facilities across the sunbelt and, since 1989, it has acquired eight air conditioning distributors. The Company believes it is the only company pursuing a consolidation strategy by making significant acquisitions in the highly fragmented air conditioning distribution industry. As of December 31, 1995, the Company operated 70 branch warehouses in nine states. This geographic diversification across the sunbelt minimizes the impact of unseasonably mild weather on the replacement of air conditioners. The Three States acquisition will further diversify the Company geographically with the addition of nine branches in five states.

Recently, the Company has accelerated its acquisition activity. The following is a description of the Company's acquisitions completed in 1995.

AIRITE, INC. In February 1995, the Company acquired Airite, Inc., a wholesale distributor of residential central air conditioners with branches in Shreveport and Monroe, Louisiana and Texarkana, Texas. Airite sells to nearly 400 licensed air conditioning and heating contractors and the Company believes that Airite had 1994 revenues of approximately \$3.5 million.

H.B. ADAMS, INC. In March 1995, the Company acquired certain assets of H.B. Adams. H.B. Adams is a wholesale distributor of air conditioning, heating and refrigeration products and operates seven branches in the Tampa, Florida market area, the second largest market for air conditioning equipment in Florida. The Company believes that H.B. Adams had fiscal 1995 revenues of approximately \$20.2 million.

ENVIRONMENTAL EQUIPMENT & SUPPLIES, INC. In June 1995, the Company acquired certain assets of Environmental Equipment and Supplies, Inc. Environmental Equipment is a wholesale distributor of air conditioning and heating equipment and sells to approximately 300 licensed air conditioning and heating contractors. Environmental Equipment operates from two branches in Fort Smith and Jonesboro, Arkansas. Environmental Equipment reported revenues in 1994 of approximately \$5.6 million.

CENTRAL AIR CONDITIONING DISTRIBUTORS, INC. In October 1995, the Company acquired certain assets of Central Air Conditioning, a wholesale distributor of residential central air conditioners and related products. Central Air Conditioning sells to approximately 1,200 licensed air conditioning and heating contractors from five branches in North Carolina. Central Air Conditioning reported revenues of approximately \$17.6 million in 1994.

THREE STATES ACQUISITION

In December 1995, the Company entered into a letter of intent with respect to the proposed acquisition of Three States, a distributor of building materials used primarily in the air conditioning and heating industry. Three States reported revenues of approximately \$45 million in 1994. The Company believes that Three States serves over 5,000 customers from its nine locations in Memphis and Nashville, Tennessee, Little Rock and Fort Smith, Arkansas, Jackson, Mississippi, Huntsville, Alabama and St. Louis, Missouri.

The terms of the letter of intent among the Company, Three States and the 99.8% stockholder of Three States provide that the Company will acquire the assets and assume certain liabilities of Three States. The purchase price will be calculated as of the closing date of the acquisition and is expected to be approximately \$14 million, subject to adjustment. The consummation of the acquisition is subject to the negotiation of definitive agreements and certain other conditions, including satisfactory due diligence review by the Company and the absence of material adverse changes in the operation or condition of Three States, and accordingly there can be no assurance that the Company's acquisition of Three States will be consummated.

The Company expects to use a portion of the net proceeds of this offering to pay for the acquisition of Three States. However, the acquisition of Three States is not contingent upon the completion of this offering. In the event this offering is not consummated, or if the net proceeds are not equal to the purchase price, the Company has received indications from its lenders that it will be able to obtain financing for the acquisition. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

DISTRIBUTION OPERATIONS

PRODUCTS. The Company markets a complete line of residential central air conditioners (primarily under the Rheem brand name) and related parts and supplies and maintains sufficient inventory to meet its customers' immediate needs. The Company's strategy is to provide every product a contractor generally would require in order to install or repair a residential or light commercial central air conditioner. Such products include

residential central air conditioners ranging from 1 1/2 to 5 tons*, light commercial air conditioners ranging up to 20 tons, insulation, grills, sheet metal and other ductwork, copper tubing, concrete pads, and tape. In addition, the Company also sells products such as electric and gas heating units, air-to-air heat pumps and rooftop equipment. Sales of air conditioning and heating equipment accounted for approximately 66% and 63% of the distribution subsidiaries' revenues for 1994 and the nine months ended September 30, 1995, respectively. Sales of parts and supplies (currently approximately 28,000 different parts and supplies) comprised the remaining portions of revenues. In 1994 and the nine months ended September 30, 1995, purchases of Rheem products represented approximately 57% and 55%, respectively, of the aggregate purchases of the Company's distribution subsidiaries.

DISTRIBUTION AND SALES. The Company operates out of 70 branch warehouses located in regions of the sunbelt which the Company believes have favorable demographic trends. The Company maintains well-stocked inventories at each warehouse location to meet the immediate needs of its customers. This is accomplished by transporting inventory between warehouses daily and either directly delivering products to customers with the Company's fleet of 137 trucks or making the products available for pick-up at the nearest branch. The Company has 111 commissioned salespeople who average 16 years of experience in the residential central air conditioning equipment industry.

CUSTOMERS AND CUSTOMER SERVICE. The Company sells to contractors and dealers who service the new construction and replacement markets for residential and light commercial central air conditioners. In 1995, the Company served over 13,600 customers, with no single customer accounting for more than 2% of consolidated revenues. The Company focuses on providing products where and when the customer needs them, technical support by phone or on site as required, and quick and efficient service at the branch locations. Management believes that the Company successfully competes with other distributors in the residential and light commercial central air conditioning market primarily on the basis of its experienced sales organization, strong service support, high quality reputation, extensive branch network and broad product lines.

MANUFACTURING OPERATIONS

The Company produces over 4,000 electronic and mechanical components for air conditioning, heating and refrigeration equipment that are sold to over 5,000 wholesale distributors and OEMs, with no single customer accounting for more than 1% of consolidated revenues. The Company's products include: components, such as line tap and specialty valves, motor compressor protectors, liquid sight glasses, warm air controls; and equipment, such as vacuum pumps, and refrigerant recovery systems. Many of the Company's products are patented and compete in the market place based on uniqueness as well as quality and price. The Company's OEM customers include most of the major air conditioning manufacturers, including Rheem, Carrier Air Conditioning, Inc., and Inter-City Products Corporation.

The Company conducts research and development to improve the quality and performance of its manufactured products and to develop new products and product line improvements. The Company performs research and development both in-house and by extensive field testing of products. The Company's engineering staff, consisting of 11 employees, develops new customized products to end-user specification and continuously improves, supplements and enhances product lines with newly developed products.

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

RELATIONSHIP WITH RHEEM MANUFACTURING COMPANY

Rheem is the second largest manufacturer of residential central air conditioning equipment in the United States with a reputation for a high quality, competitively-priced product line. The Company is the leading distributor of Rheem products and is an authorized distributor of Rheem products in the State of Florida, the eastern half of Texas, southern and central California, the western half of North Carolina, the Phoenix and Tucson, Arizona metropolitan areas, the Las Vegas, Nevada metropolitan area, the Shreveport and Monroe, Louisiana metropolitan areas, the Fort Smith and Jonesboro, Arkansas metropolitan areas, the Mobile, Alabama metropolitan area, the County of Decatur, Georgia, and substantially all of the countries of South America, Central America and the Caribbean (excluding principally Brazil, Chile, Peru, Mexico, and Puerto Rico). Additionally, the Company is authorized to distribute the Weatherking brand of air conditioners, also manufactured by Rheem, in substantially all of South America, Central America and the Caribbean. Pursuant to the Company's distribution agreements with Rheem, Rheem is obligated to offer the Company all of the same programs, prices, terms and conditions offered to competing distributors of Rheem brand products in the same territories.

Management believes that the Company maintains a unique and mutually beneficial relationship with Rheem, which owns 20% of Gemaire and Comfort Supply and 50% of Heating & Cooling. The Company has the option to increase its ownership in Heating & Cooling to 50.25%. Pursuant to shareholder agreements with the Company, Rheem has the right to designate directors to two of the five seats on Gemaire's Board of Directors and three of the seven seats on Heating & Cooling's and Comfort Supply's Boards of Directors, as well as the right to approve fundamental corporate changes with respect to the business and corporate structures of Gemaire, Heating & Cooling and Comfort Supply. See "Business -- Distribution Operations."

The Company's distribution subsidiaries (other than Heating & Cooling) have distribution agreements with Rheem. Two of the distribution agreements will expire in 1998, and the third can be terminated at any time without cause by either party. Heating & Cooling's distribution agreement expired in September 1995. Heating & Cooling continues to distribute Rheem products, and the Company expects that Heating & Cooling will enter into a new distribution agreement with Rheem on substantially similar economic terms. Under Gemaire's distribution agreement, Gemaire's sales of competitive products from other manufacturers in any 12-month period must be less than 5% of its sales of Rheem products. Under Comfort Supply's distribution agreement, Comfort Supply is permitted to continue to sell, without restriction, competitive products substantially similar to those carried by Comfort Supply at the time it entered into its distribution agreement (the "Permitted Competitive Products"). Comfort Supply may also sell competitive products ("Other Products"), in addition to the Permitted Competitive Products, in any 12-month period as long as such sales of Other Products are less than 10% of the sum of (i) its sales of Rheem products plus (ii) its sales of Permitted Competitive Products.

The shareholder agreement, as amended, between the Company and Rheem with respect to Gemaire provides, among other things, that annually during any Election Period after the year ended December 31, 1992, the Company can "put" its ownership interest in Gemaire to Rheem, and, that annually during any Election Period after the year ended December 31, 1997, Rheem can "call" the Company's ownership interest in Gemaire, at a price based on a valuation formula (the "Gemaire Put/Call"). The Gemaire Put/Call purchase price is the Company's ownership percentage multiplied by the greater of (i) an amount equal to (a) seven times the average of Gemaire's highest EBIT (earnings before interest and taxes) for each of the three out of the four full fiscal years immediately preceding the date the purchase price is being calculated, less (b) the total amount of Gemaire's interest-bearing bank debt, as reflected in the most recent fiscal year audited financial statements; or (ii) an amount equal to (a) Gemaire's tangible net book value as of the closing of the Gemaire Put/Call, plus (b) goodwill arising out of the acquisition of Gemaire. See "Risk Factors - -- Put/Call Agreements with Rheem Manufacturing Company" and Note 10 to the Company's Consolidated Financial Statements.

The shareholder agreement, as amended, between the Company and Rheem with respect to Heating & Cooling provides, among other things, that annually during any Election Period after the year ended December

31, 1992, the Company can "put" its stock in Heating & Cooling to Rheem and, that annually during any Election Period after the year ended December 31, 1997, Rheem can "call" the Company's stock in Heating & Cooling pursuant to a valuation formula (the "H&C Put/Call"). The H&C Put/Call purchase price is the Company's ownership percentage multiplied by the greater of (i) an amount (the "H&C EBIT Valuation") equal to (a) six times Heating & Cooling's highest annual EBIT during the four full fiscal years immediately preceding the date of the exercise of the H&C Put/Call (the "H&C Exercise Date") less (b) the sum of (1) the amount of Heating & Cooling's long-term interest-bearing bank debt, inclusive of current portion, as of the date of the balance sheet for the fiscal year immediately preceding the H&C Exercise Date (the "Debt"), less (2) the amount of such Debt then guaranteed by Watsco and less (3) the product of (A) Heating & Cooling's working capital (determined in accordance with generally accepted accounting principles) and (B) the quotient obtained by dividing Heating & Cooling's Debt by the sum of its Debt and stockholders' equity (determined in accordance with generally accepted accounting principles), less (c) a working capital adjustment, as defined below; or (ii) the amount equal to (a) Heating & Cooling's tangible net book value as of the closing of the H&C Put/Call, plus (b) the goodwill arising out of the acquisition of Heating & Cooling by the Company, plus (c) \$5,000,000. The working capital adjustment referred to above is the amount, if any, by which (i) certain components of working capital of Heating & Cooling (accounts receivable and inventory less accounts payable and accrued expenses) at the end of the year used to calculate the H&C EBIT Valuation are greater than the net total of (ii) those same components of working capital as of the date of the balance sheet for the fiscal year immediately preceding the H&C Exercise Date, except that such adjustment may not exceed \$6,000,000. See "Risk Factors -- Put/Call Agreements with Rheem Manufacturing Company" and Note 10 to the Company's Consolidated Financial Statements.

The shareholder agreement, as amended, between the Company and Rheem with respect to Comfort Supply provides, among other things, that annually during any Election Period after the year ended December 31, 1996, the Company can "put" its stock in Comfort Supply to Rheem and, that annually during any Election Period after the year ended December 31, 1997, Rheem can "call" the Company's stock in Comfort Supply pursuant to a valuation formula (the "Comfort Supply Put/Call"). The Comfort Supply Put/Call purchase price is the Company's ownership percentage multiplied by the greater of (i) an amount equal to seven times the average of Comfort Supply's highest EBIT for each of the three out of the four full fiscal years immediately preceding the date the purchase price is being calculated or (ii) an amount equal to (a) Comfort Supply's tangible net book value as of the closing of the Comfort Supply Put/Call, plus (b) any remaining goodwill arising out of the acquisition of Comfort Supply, plus (c) \$2,000,000. See "Risk Factors -- Put/Call Agreements with Rheem Manufacturing Company" and Note 10 to the Company's Consolidated Financial Statements.

PERSONNEL SERVICES

Dunhill, founded in 1952, is one of the nation's best known personnel service networks. Through franchised, licensed, and company-owned offices in 38 states, Puerto Rico and Canada, Dunhill provides permanent placement and temporary help services to business, professional and service organizations, government agencies, health care providers, and other employers. As of December 31, 1995, Dunhill's operations consisted of 115 franchised permanent placement offices and 18 franchised, 5 licensed, and 14 company-owned temporary personnel service offices. Dunhill's franchisees operate their businesses autonomously within the framework of the Company's policies and standards, and recruit, employ, and pay their own employees, including temporary employees. Dunhill's permanent placement division recruits primarily middle-management, sales, technical, administrative, and support personnel for permanent employment in a wide variety of industries and positions. The fees paid by employers to Dunhill for its permanent placement services are typically contingent upon the Company's successful placement of an employee and are generally a percentage of the annual compensation to be paid to the new employee.

Dunhill receives an initial fee from all licensees and franchisees, and on-going revenues from (i) temporary help licensees of approximately 7% of the licensee's gross receipts and (ii) royalty fees from permanent placement and temporary help franchisees of approximately 7% and 1 1/2% to 3%, respectively, of gross franchisee receipts. Licenses and franchises are generally granted for 5 and 10 year terms,

respectively, and are typically renewable at the option of the licensee or franchisee for additional terms of 5 and 10 years, respectively.

COMPETITION

All of the Company's businesses operate in highly competitive environments. The Company's distribution business competes with a number of independent distributors and those major air conditioner manufacturers who distribute a significant portion of their products through factory-owned distribution organizations. Many of the factory-owned distribution organizations are larger and have greater financial resources than those of the Company. Competition within any given geographic market is based upon product availability, customer service, price and quality. The Company's manufacturing business has several major competitors, a few of which are larger and have greater financial resources. Dunhill competes with numerous other large and small national, regional, and local personnel service providers. Competitive pressures or other factors could cause the Company's products or services to lose market acceptance or result in significant price erosion, all of which would have a material adverse effect on the Company's profitability.

MANAGEMENT

Certain information concerning directors and executive officers of the Company and the Presidents of the principal subsidiaries of the Company is set forth below:

NAME	AGE	POSITION WITH THE COMPANY
DIRECTORS AND EXECUTIVE OFFICERS		
Albert H. Nahmad	55	Chairman of the Board and President
Ronald P. Newman	49	Chief Financial Officer, Secretary and Treasurer
D.A. Coape-Arnold	78	Director
David B. Fleeman(1)	82	Director
James S. Grien(2)	38	Director
Paul F. Manley(1)(3)	59	Director
Bob L. Moss(2)	48	Director
Roberto Motta	82	Director
Alan H. Potamkin	47	Director
PRINCIPAL SUBSIDIARY PRESIDENTS		
Kenneth A. Perkins	58	President of Gemaire
Donald H. Huslage	64	President of Heating & Cooling
Eric A. Young	37	President of Comfort Supply
Michael B. Huff	34	President of Central Air Conditioning
Neal Fischer	44	President of Watsco Components, Inc.
Daniel H. Abramson	46	President of Dunhill

- (1) Member of the Compensation Committee of the Board of Directors.
- (2) Member of the Stock Option Committee of the Board of Directors.
- (3) Member of the Audit Committee of the Board of Directors.

ALBERT H. NAHMAD has served as Chairman of the Board and President of the Company since 1973. Mr. Nahmad is the general partner of Alna Capital Associates, a New York limited partnership, which is the principal shareholder of the Company. Mr. Nahmad also serves as a director of American Bankers Insurance Group.

RONALD P. NEWMAN has served as Chief Financial Officer, Secretary and Treasurer of the Company since 1982. Prior to joining the Company, Mr. Newman, a certified public accountant, was associated with the accounting firm of Arthur Young & Company from 1977 to 1982.

D.A. COAPE-ARNOLD has been a director of the Company since 1981. Since 1988, Mr. Coape-Arnold has also served as Chairman of the Board and Chief Executive Officer of Dunhill. From 1982 to present, Mr. Coape-Arnold has served as a consultant for a variety of businesses. From 1978 until 1982, he served as Vice President of The Wickes Corporation, a diversified New York Stock Exchange company. From 1961 to 1978, Mr. Coape-Arnold served as Vice President and Group Executive of W.R. Grace & Co., a diversified New York Stock Exchange company.

DAVID B. FLEEMAN has been a director of the Company since 1977. Since 1956, Mr. Fleeman has served as the Managing Partner of Fleeman Builders, a Florida general partnership engaged primarily in real estate development.

JAMES S. GRIEN has been a director of the Company since 1994. Mr. Grien is a Managing Director in the Investment Banking Group of Prudential Securities Incorporated and has been employed by Prudential Securities Incorporated in various positions since 1989.

PAUL F. MANLEY has been a director of the Company since 1984. Mr. Manley served as Executive Director of the law firm of Holland & Knight from 1987 to 1991. From 1982 to 1987, Mr. Manley served as Vice President of Planning at Sensormatic Electronics Corporation, a publicly held manufacturer of electronic article surveillance systems. Prior to 1982, Mr. Manley served as the Managing Partner of the Miami office of Arthur Young & Company.

BOB L. MOSS has been a director of the Company since 1992. Since 1986 Mr. Moss has served as President and Chief Executive Officer of Centex-Rooney Enterprises, Inc., Florida's largest general contractor.

ROBERTO MOTTA has been a director of the Company since 1975. Mr. Motta has been engaged as a private investor in various business activities for more than five years.

ALAN H. POTAMKIN has been a director of the Company since 1994. Since 1970, Mr. Potamkin has served as President of Potamkin Companies, one of the nation's largest retail automobile dealers.

KENNETH A. PERKINS, a co-founder of Gemaire in 1969, has served as its President since 1987. From 1969 to 1987, he served as Gemaire's Vice President - - Marketing. Mr. Perkins has over 29 years of experience in the air conditioning industry.

DONALD H. HUSLAGE has served as President of Heating & Cooling since 1995. Mr. Huslage has also served from 1993 to present as Chairman of the Board of Comfort Supply and from 1990 to 1993 as President of Comfort Supply.

ERIC A. YOUNG has served as President of Comfort Supply since 1993. From 1991 to 1993 he was employed as Executive Vice President of Comfort Supply.

MICHAEL B. HUFF has served as President of Central Air Conditioning since 1995. From 1978 to 1995 he was employed in various capacities by Central Air Conditioning.

NEAL FISCHER joined the Company in 1986 and has served as President of the Company's manufacturing subsidiaries since 1991. From 1986 to 1991 he served as Controller of the Company's manufacturing subsidiaries.

DANIEL H. ABRAMSON has served as President of Dunhill since 1994. From 1992 to 1994, he served as Executive Vice President of Dunhill's professional search division. From 1986 to 1992, he owned and operated Dunhill Professional Search of Providence, Inc., a Dunhill franchisee.

The Company's Articles of Incorporation provide for the Board of Directors to have up to nine members, to be divided as nearly as possible in three equal divisions to serve in staggered terms of three years. Each division currently consists of one director to be elected by the holders of Common Stock and two directors to be elected by the holders of Class B Common Stock. The number of members comprising the Board of Directors is presently set at eight, three of whom are Common Stock directors and five of whom are Class B directors. At present Messrs. Manley (Common Stock), Nahmad (Class B) and Coape-Arnold (Class B) serve until the 1996 annual meeting of shareholders, Messrs. Potamkin (Common Stock) and Motta (Class B) serve until the 1997 annual meeting of shareholders and Messrs. Grien (Common Stock), Fleeman (Class B) and Moss (Class B) serve until the 1998 annual meeting of shareholders.

SELLING SHAREHOLDERS

The following table sets forth information regarding the beneficial ownership of the Company's Common Stock by the Selling Shareholders as of the date of this Prospectus, and as adjusted to reflect the sale of the Common Stock offered hereby.

	COMMON STOCK				CLASS B COMMON STOCK		
	BENEFICIAL OWNERSHIP PRIOR TO OFFERING		NUMBER OF SHARES OFFERED	BENEFICIAL OWNERSHIP AFTER OFFERING		BENEFICIAL OWNERSHIP	
	NUMBER OF SHARES	% OF CLASS		NUMBER OF SHARES	% OF CLASS	NUMBER OF SHARES	% OF CLASS
Alna Capital Associates(1) 505 Park Avenue New York, NY 10022	162,510	3.4%	25,720	136,790	2.4%	677,345	41.2%
Albert H. Nahmad(2) 2665 S. Bayshore Drive Suite 901 Miami, FL 33133	469,685	9.2	50,000	419,685	6.9	1,183,559	60.4
Oliver M. Butler and Marjorie E. Butler Declaration of Trust(3) 6978 Del Cerro Blvd. San Diego, CA 92120	286,405	6.0	286,405	--	--	--	--
O.M. Butler(4) 6978 Del Cerro Blvd. San Diego, CA 92120	294,280	6.1	7,875	--	--	--	--
Ronald P. Newman(5) 2665 S. Bayshore Drive Suite 901 Miami, FL 33133	91,415	1.9	30,000	61,415	1.0	51,416	3.4

- (1) Alna Capital Associates is a New York limited partnership of which Mr. Nahmad owns a 43% interest and is the sole general partner ("Alna Capital"). Mr. Nahmad is Chairman of the Board and President of the Company. See "Management." The number of shares of Class B Common Stock indicated includes (i) 512,211 shares directly owned and (ii) 165,134 shares issuable upon the conversion of the Company's Convertible Debentures.
- (2) Includes 162,510 shares of Common Stock and 677,345 shares of Class B Common Stock indicated as beneficially owned by Alna Capital. See footnote (1) above. The number of shares of Common Stock indicated also includes (i) 8,401 shares directly owned; (ii) 8,599 shares owned pursuant to the Watsco, Inc. Profit Sharing Retirement Plan; (iii) 3,300 shares owned by Mr. Nahmad's children; and (iv) 286,875 shares issuable upon the exercise of presently exercisable options granted pursuant to the Company's 1991 Stock Option Plan. The number of shares of Class B Common Stock indicated includes (i) 192,955 shares directly owned; (ii) 291,375 shares issuable upon the exercise of presently exercisable options granted pursuant to the 1991 Stock Option Plan; and (iii) 21,884 shares issuable upon the conversion of the Company's Convertible Debentures.

- (3) The Oliver M. Butler and Marjorie E. Butler Declaration of Trust is a trust organized under the laws of California and Mr. Butler and his wife are Co-Trustees.
- (4) The number of shares of Common Stock indicated (i) includes 286,405 shares owned by the Oliver M. Butler and Marjorie E. Butler Declaration of Trust and (ii) 7,875 shares issuable upon the exercise of presently exercisable options granted pursuant to the 1991 Stock Option Plan. Mr. Butler served as Chairman of the Board of Heating & Cooling and as a director of the Company from October 1990 until his resignation in December 1995.
- (5) The number of shares of Common Stock indicated includes (i) 3,513 shares directly owned; (ii) 4,420 shares owned pursuant to the Watsco, Inc. Profit Sharing Retirement Plan; (iii) 1,702 shares owned by Mr. Newman's spouse; and (iv) 81,780 shares issuable upon the exercise of presently exercisable options granted pursuant to the 1991 Stock Option Plan. The number of shares of Class B Common Stock indicated includes (i) 14,403 shares directly owned and (ii) 37,013 shares issuable upon the exercise of presently exercisable options granted pursuant to the 1991 Stock Option Plan. Mr. Newman is Chief Financial Officer, Secretary and Treasurer of the Company. See "Management."

UNDERWRITING

The Underwriters named below (the "Underwriters"), for whom Prudential Securities Incorporated is acting as the representative (the "Representative"), have severally agreed, subject to the terms and conditions contained in the Underwriting Agreement, to purchase from the Company and the Selling Shareholders the number of shares of Common Stock set forth below opposite their respective names:

UNDERWRITER -----	NUMBER OF SHARES -----
Prudential Securities Incorporated.....	
Total.....	----- 1,400,000 =====

The Company and the Selling Shareholders are obligated to sell, and the Underwriters are obligated to purchase, all of the shares of Common Stock offered hereby if any are purchased.

The Underwriters, through the Representative, have advised the Company and the Selling Shareholders that they propose to offer the Common Stock initially at the public offering price set forth on the cover page of this Prospectus; that the Underwriters may allow to selected dealers a concession of \$_____ per share; and that such dealers may reallocate a concession of \$_____ per share to certain other dealers. After the public offering, the offering price and the concessions may be changed by the Representative.

The Company has granted to the Underwriters an option, exercisable for 30 days from the date of this Prospectus, to purchase up to 210,000 additional shares of Common Stock at the initial public offering price, less underwriting discounts and commissions, as set forth on the cover page of this Prospectus. The Underwriters may exercise such option solely for the purpose of covering over-allotments incurred in the sale of the shares of Common Stock offered hereby. To the extent such option to purchase is exercised, each Underwriter will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the number set forth next to such Underwriter's name in the preceding table bears to 1,400,000 shares.

The Company and the Selling Shareholders have agreed to indemnify the several Underwriters or contribute to losses arising out of certain liabilities, including liabilities under the Securities Act of 1933, as amended.

The Company, each of the Company's directors and executive officers and the Selling Shareholders holding 325,980 shares of Common Stock (excluding the shares of Common Stock offered hereby) and 812,652 shares of Class B Common Stock have agreed that they will not, directly or indirectly, without the prior written consent of the Representative on behalf of the Underwriters for a period of 120 days after the date of this Prospectus, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell

or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of an option to purchase or other disposition) of any shares of Common Stock or Class B Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock or Class B Common Stock, except for issuances pursuant to the exercise of employee stock options outstanding as of the date of this Prospectus or pursuant to the terms of convertible securities of the Company outstanding as of the date of this Prospectus.

James S. Grien, a director of the Company, is a Managing Director in the Investment Banking Group of Prudential Securities Incorporated, the Representative.

LEGAL MATTERS

The validity of the Common Stock offered hereby will be passed upon for the Company and the Selling Shareholders by Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A., Miami, Florida. Certain legal matters will be passed upon for the Underwriters by King & Spalding. King & Spalding will rely upon the opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A. as to all matters of Florida law.

EXPERTS

The financial statements, schedules and five-year selected financial data included in this Prospectus and elsewhere in the registration statement, to the extent and for the periods indicated in their reports, have been audited by Arthur Andersen LLP, independent certified public accountants, and are included herein in reliance upon the authority of said firm as experts in giving said reports.

The financial statements of Three States as of December 31, 1994 and for the period then ended included in this Prospectus have been audited by Rhea & Ivy, P.L.C., independent certified public accountants, as stated in their report appearing herein, and have been so included in reliance upon the authority of said firm as experts in accounting and auditing.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company can be inspected and copied at the Public Reference Section of the Commission maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the regional offices of the Commission located at Seven World Trade Center, 13th Floor, New York, New York 10048, and at Suite 1400, 500 W. Madison Street, Chicago, Illinois 60661, and copies of such material may be obtained from the Public Reference Section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Such reports, proxy statements and other information can also be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005 or the American Stock Exchange, 86 Trinity Place, New York, New York 10006.

This Prospectus constitutes a part of a Registration Statement on Form S-3 filed by the Company with the Commission under the Securities Act of 1933, as amended. This Prospectus omits certain information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Company and the securities offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and in such instance reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the Commission. Each such statement is qualified in its entirety by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company (File No. 1-5581) with the Commission are incorporated herein by reference: (1) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994; (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1995, June 30, 1995 and September 30, 1995; and (3) the Company's Registration Statement on Form 8-A filed May 4, 1994, registering the Company's Common Stock under Section 12(b) of the Exchange Act. All documents filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act subsequent to the date hereof and prior to the termination of the offering of the Common Stock registered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing such documents. Any statements contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that the statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. The Company will provide without charge to each person to whom this Prospectus is delivered, upon a written or oral request of such person, a copy of any or all of the foregoing documents incorporated by reference into this Prospectus (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such documents). Request for such copies should be delivered to Ronald P. Newman, Chief Financial Officer, 2665 South Bayshore Drive, Miami, Florida 33133, telephone (305) 858-0828.

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND SHAREHOLDERS OF WATSCO, INC.:

We have audited the accompanying consolidated balance sheets of Watsco, Inc. (a Florida corporation) and subsidiaries as of December 31, 1993 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Watsco, Inc. and subsidiaries as of December 31, 1993 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1994 in conformity with generally accepted accounting principles.

We have also audited, in accordance with generally accepted auditing standards, the balance sheets as of December 31, 1990, 1991 and 1992, and the related statements of income, shareholders' equity and cash flows for each of the two years in the period ended December 31, 1992 (none of which are presented herein), and have expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the selected financial data for each of the five years in the period ending December 31, 1994, appearing on page 10, is fairly stated in all material respects in relation to the financial statements from which it has been derived.

ARTHUR ANDERSEN LLP

Fort Lauderdale, Florida,
March 13, 1995 (except with respect to
the matters discussed in Note 15, as to
which the date is January 18, 1996).

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

	DECEMBER 31,		SEPTEMBER 30,
	1993	1994	1995
	(UNAUDITED)		
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,093	\$ 1,744	\$ 3,190
Marketable securities	1,501	3,227	1,281
Accounts receivable, net	30,257	34,811	47,413
Inventories	48,959	49,259	61,654
Prepaid expenses and other current assets	4,875	4,608	5,123
Total current assets	86,685	93,649	118,661
Property, plant and equipment, net	6,554	8,829	10,537
Intangible assets, net	13,449	13,164	14,353
Other assets	2,997	4,022	4,014
	\$109,685	\$119,664	\$147,565
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term obligations	\$ 1,069	\$ 1,781	\$ 744
Borrowings under revolving credit agreements	26,151	32,034	49,433
Accounts payable	15,483	13,108	15,921
Accrued liabilities	4,720	6,631	7,578
Total current liabilities	47,423	53,554	73,676
Long-term obligations:			
Bank and other debt	3,672	2,719	4,026
Subordinated note	2,500	2,500	2,500
Convertible subordinated debentures	1,676	1,505	1,341
	7,848	6,724	7,867
Deferred income taxes	1,107	713	638
Minority interests	11,553	11,857	12,780
Commitments and contingencies (Notes 2 and 12)			
Shareholders' equity:			
Common Stock, \$.50 par value, 4,596,648, 4,658,010 and 4,783,129 shares issued and outstanding in 1993 and 1994 and September 30, 1995, respectively	2,298	2,329	2,392
Class B Common Stock, \$.50 par value, 1,487,928, 1,492,725 and 1,485,171 shares issued and outstanding in 1993 and 1994 and September 30, 1995, respectively	744	746	742
Paid-in capital	18,131	18,565	19,205
Retained earnings	20,581	25,176	30,265
Total shareholders' equity	41,754	46,816	52,604
	\$109,685	\$119,664	\$147,565
	=====	=====	=====

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

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1994	1995
	(UNAUDITED)				
Revenues:					
Net sales.....	\$169,140	\$203,067	\$253,433	\$191,424	\$226,689
Service fees and royalties	25,493	27,589	30,298	22,460	23,501
Total revenues.....	194,633	230,656	283,731	213,884	250,190
Costs and expenses:					
Cost of sales.....	129,262	157,213	197,397	148,183	175,603
Direct service expenses.....	19,812	21,513	23,122	17,035	18,040
Selling, general and administrative expenses.....	35,629	40,540	48,169	36,036	41,020
Total costs and expenses	184,703	219,266	268,688	201,254	234,663
Operating income.....	9,930	11,390	15,043	12,630	15,527
Other income (expense):					
Investment income, net.....	401	383	140	82	181
Interest expense	(3,197)	(2,756)	(3,155)	(2,278)	(3,064)
Insurance proceeds	-	1,130	-	-	-
	(2,796)	(1,243)	(3,015)	(2,196)	(2,883)
Income before income taxes and minority interests.....	7,134	10,147	12,028	10,434	12,644
Income taxes.....	(2,746)	(3,819)	(4,630)	(4,065)	(4,867)
Minority interests	(1,470)	(1,287)	(1,636)	(1,446)	(1,744)
Net income.....	\$2,918	\$5,041	\$5,762	\$4,923	\$ 6,033
Primary earnings per share	\$.70	\$.85	\$.89	\$.77	\$.91
Fully diluted earnings per share	\$.64	\$.82	\$.87	\$.74	\$.87

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

WATSCO, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	COMMON STOCK		PAID-IN CAPITAL	RETAINED EARNINGS	RECEIVABLE FROM STOCK ISSUANCE
	SHARES	AMOUNT			
BALANCE AT DECEMBER 31, 1991	3,733,628	\$ 1,867	\$ 3,612	\$ 15,392	\$ (39)
5% stock dividend	186,447	93	1,132	(1,225)	
Conversion of debentures into Common Stock	126,434	63	705		
Issuance of Common Stock	79,200	40	523		
Contribution to 401(k) plan	11,788	6	92		
Exercise of stock options	259,641	130	512		
Common stock cash dividends, \$.150 per share of Common Stock and \$.143 per Class B share				(588)	
Reduction of receivable from stock issuance					39
Net income				2,918	
BALANCE AT DECEMBER 31, 1992	4,397,138	2,199	6,576	16,497	--
Conversion of debentures into Common Stock	444,009	222	2,385		
Issuance of Common Stock	1,200,000	600	8,895		
Contribution to 401(k) plan	12,847	6	105		
Exercise of stock options	30,582	15	170		
Common stock cash dividends, \$.16 per share of Common Stock and \$.16 per Class B share				(887)	
Dividends on 6.5% Series A preferred stock of subsidiary				(70)	
Net income				5,041	
BALANCE AT DECEMBER 31, 1993	6,084,576	3,042	18,131	20,581	--
Conversion of debentures into Common Stock	28,330	14	178		
Contribution to 401(k) plan	12,680	6	131		
Exercise of stock options	25,149	13	125		
Common stock cash dividends, \$.17 per share of Common Stock and \$.17 per Class B share				(1,037)	
Dividends on 6.5% Series A preferred stock of subsidiary				(130)	
Net income				5,762	
BALANCE AT DECEMBER 31, 1994	6,150,735	3,075	18,565	25,176	--
Conversion of debentures into Common Stock (unaudited)	24,403	12	152		
Exercise of stock options and warrants (unaudited)	93,162	47	488		
Common stock cash dividends, \$.05 per share of Common Stock and \$.05 per Class B share (unaudited)				(847)	
Dividends on 6.5% Series A preferred stock of subsidiary (unaudited)				(97)	
Net income (unaudited)				6,033	
BALANCE AT SEPTEMBER 30, 1995 (UNAUDITED)	6,268,300	\$ 3,134	\$ 19,205	\$ 30,265	\$ --
	=====	=====	=====	=====	=====

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

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1994	1995
				(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES:					
Net income.....	\$ 2,918	\$ 5,041	\$ 5,762	\$ 4,923	\$ 6,033
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization	1,878	1,849	2,345	1,633	2,057
Provision for doubtful accounts	834	315	597	639	575
Net investment gains	(172)	(161)	(6)	(3)	(13)
Deferred income tax benefit	(246)	(455)	(237)	(95)	(75)
Noncash stock contribution to 401(k) plan	98	111	137	--	--
Minority interests, net of dividends paid	856	549	304	714	926
Changes in operating assets and liabilities, net of effects of acquisitions in 1993 and 1995:					
Accounts receivable	(2,441)	(1,155)	(5,151)	(7,820)	(9,305)
Inventories	969	1,462	(300)	(11,839)	(6,128)
Accounts payable and accrued liabilities	1,635	(5,676)	(797)	8,347	2,022
Other, net	(636)	(936)	(229)	152	(137)
Net cash provided by (used in) operating activities	5,693	944	2,425	(3,349)	(4,045)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Cash used in acquisitions, net of cash acquired ...	--	(3,547)	--	--	(8,175)
Capital expenditures, net	(1,957)	(2,994)	(4,148)	(2,224)	(3,165)
Net proceeds from (purchases of) marketable securities transactions	1,044	(906)	(2,258)	(816)	1,986
Net cash used in investing activities	(913)	(7,447)	(6,406)	(3,040)	(9,354)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Repayments of long-term obligations	(1,374)	(3,874)	(222)	(421)	(2,145)
Net borrowings (repayments) under revolving credit agreements	(5,170)	1,865	5,883	8,063	17,399
Net proceeds from issuances of common stock	957	9,680	138	71	535
Cash dividends	(588)	(887)	(1,037)	(770)	(847)
Other, net	39	(70)	(130)	(97)	(97)
Net cash provided by (used in) financing activities	(6,136)	6,714	4,632	6,846	14,845
Net increase (decrease) in cash and cash equivalents	(1,356)	211	651	457	1,446
Cash and cash equivalents at beginning of period ..	2,238	882	1,093	1,093	1,744
Cash and cash equivalents at end of period	\$ 882	\$ 1,093	\$ 1,744	\$ 1,550	\$ 3,190
SUPPLEMENTAL DISCLOSURES:					
Income taxes paid.....	\$ 1,476	\$ 5,215	\$ 4,709	\$ 2,808	\$ 1,639
Interest paid.....	\$ 3,329	\$ 3,056	\$ 3,149	\$ 2,411	\$ 1,022

During the year ended December 31, 1994 and the nine months ended September 30, 1995, \$192,000 and \$164,000, respectively, of 10% Convertible Subordinated Debentures due 1996 were converted into Class B Common Stock.

In connection with acquisitions during 1993 and the nine months ended September 30, 1995, the Company assumed liabilities of \$19,832,000 and \$4,003,000, respectively. (See Notes 8 and 15).

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

WATSCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION WITH RESPECT TO SEPTEMBER 30, 1994 AND 1995 IS UNAUDITED)

1. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Watsco, Inc. ("Watsco") and its subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. The Company's consolidated subsidiaries that are less than wholly-owned include 80% equity interests in Gemaire Distributors, Inc. ("Gemaire") and Comfort Supply, Inc. ("Comfort Supply"), and a 50% equity interest in Heating & Cooling Supply, Inc. ("Heating & Cooling"). Watsco has an option to increase its equity interest in Heating & Cooling to 50.25%. Minority interests in the accompanying consolidated financial statements include the portions of net income and equity of Gemaire, Comfort Supply and Heating & Cooling owned by Rheem Manufacturing Company ("Rheem").

The accompanying unaudited consolidated financial statements as of September 30, 1995 and for the nine months ended September 30, 1994 and 1995 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the consolidated financial statements of the Company included herein. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 1995 are not necessarily indicative of the results that may be expected for the year ending December 31, 1995.

REVENUE RECOGNITION

The Company recognizes revenue upon shipment of products for its manufacturing and distribution businesses and upon delivery of services for its personnel services business.

INVENTORIES

Effective January 1, 1994, certain of the Company's subsidiaries changed their method of accounting for inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. The Company believes that the FIFO method provides a better matching of current costs and current revenues and provides a more meaningful presentation of these subsidiaries' financial position. These subsidiaries' inventories represented approximately 12% of the Company's consolidated inventories at the date of the change. Following the change, all of the Company's inventories are valued at the lower of FIFO cost or market. The effect of this accounting change was not material to the Company's previously reported or current year results of operations; accordingly, prior year amounts have not been restated.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. Depreciation of property, plant and equipment is provided on the straight-line method. Buildings and improvements are being depreciated over estimated useful lives ranging from 5-40 years. Estimated useful lives for other depreciable assets range from 3-10 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization of \$1,275,000, \$1,639,000 and \$1,936,000 at December 31, 1993 and 1994 and September 30, 1995, respectively, consists of goodwill arising from the excess of the cost of acquired businesses over the fair value of their tangible net assets. Goodwill is amortized on a straight-line basis over 40 years. The Company periodically reviews goodwill based upon expectations of undiscounted cash flows and operating income to assess whether recorded amounts are fully recoverable. Amortization expense related to goodwill amounted to \$312,000, \$358,000, \$364,000 and \$297,000 in 1992, 1993, 1994 and the nine months ended September 30, 1995, respectively.

INCOME TAXES

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). Under SFAS No. 109, deferred tax assets and liabilities reflect the future tax consequences of the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

CASH AND CASH EQUIVALENTS

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

MARKETABLE SECURITIES

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The adoption of this statement did not have a material effect on the Company's consolidated operating results or financial position in 1994. At December 31, 1993 and 1994 and September 30, 1995, marketable securities consists primarily of tax exempt municipal bonds. Such marketable securities have been classified as "available for sale" by the Company. At December 31, 1994 and September 30, 1995, the cost of such securities approximates market value.

CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its temporary cash investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution or investment. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different geographical regions. The Company establishes and monitors an allowance for doubtful accounts based on the credit risk of specific customers, historical trends and other information. At December 31, 1993 and 1994 and September 30, 1995, the allowance for doubtful accounts was \$3,012,000, \$2,681,000 and \$3,181,000, respectively.

EARNINGS PER SHARE

Primary earnings per share is computed by dividing net income, less subsidiary preferred stock dividends in 1993 and 1994 and the nine months ended September 30, 1994 and 1995, by the total of the weighted average number of shares outstanding and common stock equivalents. Fully diluted earnings per share additionally assumes, if dilutive, conversion of the 10% Convertible Subordinated Debentures due 1996 (the "Class B Debentures"), with earnings being increased for interest expense, net of income taxes, that would not have been incurred had conversion taken place at the beginning of the year.

WATSCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Shares used to calculate earnings per share (restated in 1992, 1993 and 1994 to reflect a 3-for-2 stock split effected May 15, 1995 -- see Note 15) are as follows:

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1994	1995
	(UNAUDITED)				
Weighted average shares outstanding	3,985,320	5,744,052	6,107,275	6,095,794	6,171,227
Dilutive stock options and warrants	173,763	124,530	218,853	211,888	336,831
Shares for primary earnings per share	4,159,083	5,868,582	6,326,128	6,307,682	6,508,058
Assumed conversion of debenture	816,187	470,461	267,561	274,032	246,278
Additional dilution of stock options and warrants	116,032	--	52,573	22,584	175,909
Shares for fully diluted earnings per share	5,091,302	6,339,043	6,646,262	6,604,298	6,930,245

2. INVENTORIES

Inventories consists of (in thousands):

	DECEMBER 31,		SEPTEMBER 30,
	1993	1994	1995
	(UNAUDITED)		
Raw materials	\$ 3,921	\$ 4,058	\$ 4,633
Work-in-process	721	1,152	1,380
Finished goods	44,317	44,049	55,641
	\$48,959	\$49,259	\$61,654

Rheem is a major supplier to the Company under long-term distribution agreements. Purchases under these agreements were \$90,435,000, \$113,117,000 and \$93,609,000, or 57%, 57% and 55% of the Company's distribution subsidiaries aggregate purchases in 1993 and 1994 and the nine months ended September 30, 1995, respectively. Included in accounts payable in the consolidated balance sheets are amounts owed to Rheem totaling \$6,267,000 and \$4,207,000 at December 31, 1993 and 1994, respectively. At December 31, 1994, the Company had non-cancelable purchase commitments to Rheem of approximately \$15,890,000.

3. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net, consists of (in thousands):

	DECEMBER 31,		SEPTEMBER 30,
	1993	1994	1995
	(UNAUDITED)		
Land and buildings	\$ 3,550	\$ 4,023	\$ 4,266
Machinery and equipment	8,990	10,021	11,054
Furniture and fixtures	3,542	5,461	7,597
	16,082	19,505	22,917
Less: accumulated depreciation and amortization	(9,528)	(10,676)	(12,380)
	\$ 6,554	\$ 8,829	\$ 10,537

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. REVOLVING CREDIT AGREEMENTS

Borrowings under revolving credit agreements consist of (in thousands):

	DECEMBER 31,		SEPTEMBER 30,
	1993	1994	1995
			(UNAUDITED)
Variable-rate revolving note of Gemaire	\$ 4,200	\$ 7,400	\$23,700
Variable-rate revolving note of Heating & Cooling	18,035	19,260	17,833
Variable-rate revolving note of Comfort Supply	3,916	5,374	7,900
	-----	-----	-----
	\$26,151	\$32,034	\$49,433
	=====	=====	=====

At December 31, 1994, borrowings under the Gemaire revolving note, which expires in 1998, may not exceed \$15,000,000 and are subject to maintenance of certain levels of accounts receivable and inventories. At Gemaire's option, interest is at 3/8% below the bank's prime rate or a fixed rate equal to the LIBOR rate plus 1.0% and is payable quarterly. The note is secured by substantially all of Gemaire's assets (with an aggregate carrying value of \$23,672,000 at December 31, 1994) and is without recourse to Watsco. In connection with the purchase of certain assets from H.B. Adams, Inc. ("H.B. Adams") on March 13, 1995 (see Note 15), Gemaire amended its existing revolving credit agreement such that aggregate borrowings available under the agreement were increased to \$27,000,000. Under the amended agreement, at Gemaire's option, interest is at 1-5/8% below the bank's prime rate, payable quarterly, or a fixed rate equal to the LIBOR rate plus .75%, payable at the end of the fixed period.

At December 31, 1994, borrowings under the Heating & Cooling revolving note, which expires in 1995, may not exceed \$23,000,000 and are subject to maintenance of certain levels of accounts receivable and inventories. At Heating & Cooling's option, interest is at 1/4% above the bank's prime rate or a fixed rate 1.50% over the lower of the Eurodollar rate or the bank's certificate of deposit rate for deposits of similar duration and is payable monthly. The note is secured by substantially all of Heating & Cooling's assets (with an aggregate carrying value of \$33,636,000 at December 31, 1994) and is without recourse to Watsco. In September 1995, Heating & Cooling entered into a new revolving note, which expires in 1998. Under the new revolving note, borrowings may not exceed \$25,000,000 and are subject to maintenance of certain levels of accounts receivable and inventories. At Heating & Cooling's option, interest is at 1/2% below the bank's prime rate, or a fixed rate equal to the LIBOR rate plus .90% or the bank's certificate of deposit rate plus .90% or offshore rates for deposits of similar duration and is payable monthly.

At December 31, 1994, borrowings under the Comfort Supply revolving note, which expires in 1996, may not exceed \$12,000,000 and are subject to maintenance of certain levels of accounts receivable and inventories. At Comfort Supply's option, interest is at the lesser of the bank's prime rate (prime rate less 1-5/8% at September 30, 1995), or a fixed rate equal to the LIBOR rate plus 1.0% (plus .75% at September 30, 1995) and is payable monthly. The note is secured by substantially all of Comfort Supply's assets (with an aggregate carrying value of \$15,558,000 at December 31, 1994) and is without recourse to Watsco. The Company expects to extend or obtain replacement financing for the revolving note prior to its expiration.

The Company also has an unsecured \$3,000,000 line of credit facility with a bank expiring in May 1997. At the Company's option, borrowings under the facility bear interest at the lesser of the bank's prime rate (prime rate less 1-5/8% at September 30, 1995), or a fixed rate equal to the LIBOR rate plus .75% and is payable quarterly. At December 31, 1994 and September 30, 1995, there were no outstanding borrowings under the facility.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The terms of the Gemaire, Heating & Cooling and Comfort Supply revolving credit agreements restrict the transfer of their net assets and limit the payment of dividends to their shareholders. At December 31, 1994, Watsco's proportionate share of the aggregate net assets of Gemaire, Heating & Cooling and Comfort Supply was \$19,812,000 of which \$4,296,000 was unrestricted.

At December 31, 1993 and 1994, the weighted average interest rate for the borrowings under revolving credit agreements was 5.5% and 7.6%, respectively. The weighted average rates were 7.1%, 5.7% and 6.7% during 1992, 1993 and 1994, respectively.

5. LONG-TERM OBLIGATIONS

Bank and other debt (net of current portion) consists of (in thousands):

	DECEMBER 31,		SEPTEMBER 30,
	1993	1994	1995
			(UNAUDITED)
8 1/2% first mortgage note	\$ 382	\$ 254	\$ 155
Variable-rate second mortgage note	879	--	603
Variable-rate term note of Gemaire	1,700	1,300	1,000
Other	711	1,165	2,268
	-----	-----	-----
	\$3,672	\$2,719	\$4,026
	=====	=====	=====

At December 31, 1994, the first mortgage note is payable in monthly installments of approximately \$13,000, including interest and the second mortgage note has an outstanding principal amount of \$879,000 and bears interest at the bank's prime rate (8.5% at December 31, 1994). The first mortgage note had an original maturity in 1988 and the second mortgage note matured during 1995. In August 1995, these notes were combined into a replacement promissory note payable in monthly installments of approximately \$13,000, bearing interest at 8.25% and maturing in 2002. The mortgage notes are secured by land and buildings with a net carrying value of \$961,000 at December 31, 1994.

The Gemaire note, which matures in 1999, is payable in quarterly installments of \$100,000, plus interest at a fixed rate of 5.8%. The note is secured along with the amounts outstanding under Gemaire's revolving credit agreement (see Note 4).

The subordinated note represents an unsecured note payable to Rheem by Heating & Cooling. The note bears interest at 12%, payable quarterly, and matures in 1998.

The Company's convertible subordinated debentures outstanding at December 31, 1994 represent Class B Debentures that may be converted into Class B Common Stock at \$6.74 per share. During 1994 and the nine months ended September 30, 1995, Class B Debentures totaling \$192,000 and \$164,000 were converted into 28,330 and 24,403 shares, respectively, of Class B Common Stock. If conversion does not occur on the remaining Class B Debentures, the Company is required to provide for annual sinking fund payments of \$167,000 aggregate principal amount and to redeem the remainder on September 12, 1996. Redemption, at par plus accrued interest, may be made by the Company at any time. At December 31, 1993 and 1994, Class B Debentures in the aggregate principal amount of \$1,863,000 and \$1,672,000, respectively, were convertible into Class B Common Stock. Directors and an affiliate of the Company owned \$1,747,000 and \$1,567,500 of Class B Debentures at December 31, 1993 and 1994, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Annual maturities of long-term obligations for the years subsequent to December 31, 1994 are as follows: \$1,781,000 in 1995; \$2,242,000 in 1996; \$694,000 in 1997; \$3,005,000 in 1998; \$180,000 in 1999 and \$603,000 thereafter.

6. INCOME TAXES

SFAS No. 109 requires the use of the asset and liability approach for financial accounting and reporting for income taxes. As permitted under SFAS No. 109, prior years' financial statements have not been restated. Accordingly, the disclosures beginning in 1993 are in accordance with the new rules. The adoption of this statement did not have a material effect on the consolidated financial position or results of operations of the Company during 1993.

The income tax provision consists of (in thousands):

	YEAR ENDED DECEMBER 31,		
	1992	1993	1994
Federal	\$ 2,304	\$ 3,314	\$ 3,991
State	442	505	639
	\$ 2,746	\$ 3,819	\$ 4,630
	=====	=====	=====
Current	\$ 2,992	\$ 4,274	\$ 4,867
Deferred	(246)	(455)	(237)
	\$ 2,746	\$ 3,819	\$ 4,630
	=====	=====	=====

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

	YEAR ENDED DECEMBER 31,		
	1992	1993	1994
Federal statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	4.1	3.3	3.5
Amortization of intangible assets	1.6	1.2	1.0
Other, net	(1.2)	(.9)	--
	38.5%	37.6%	38.5%
	====	====	====

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

	DECEMBER 31,	
	1993	1994
Deferred tax assets:		
Included in other current assets -		
Accounts receivable reserves.....	\$ 1,198	\$ 1,005
Capitalized inventory costs and inventory reserves.....	1,724	1,860
Other.....	114	217
	-----	-----

WATSCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	DECEMBER 31,	
	1993	1994
	\$ 3,036	\$ 3,082
Included in other noncurrent assets -		
Net operating loss carryforwards of subsidiary	\$ 947	\$ 868
Other	--	211
	\$ 947	\$ 1,079
Deferred tax liabilities:		
Included in accrued liabilities -		
Inventory	\$ --	\$ (157)
Other	--	(178)
	\$ --	\$ (335)
Included in noncurrent liabilities -		
Depreciation and amortization	\$ (313)	\$ (397)
Lease transaction	(436)	--
Other	(358)	(316)
	(1,107)	(713)
Total net deferred tax assets	\$ 2,876	\$ 3,113
	=====	=====

A subsidiary of the Company has available net operating loss carryforwards ("NOLs") of approximately \$2.6 million which are available to offset future taxable income in equal annual amounts of approximately \$232,000 through 2005. SFAS No. 109 requires that the tax benefit of such NOLs be recorded as an asset to the extent that management assesses the utilization of such NOLs to be more likely than not. Management has determined, based on the subsidiary's recent operating earnings and expectations for the future, that operating income of the subsidiary will be sufficient to fully utilize the available NOLs.

7. STOCK OPTION AND BENEFIT PLANS

The Company has the following stock option plans in effect:

1991 Stock Option Plan - for directors, officers and key employees, under which options for an aggregate of 1,372,500 shares of Common Stock and Class B Common Stock may be granted. Options as to 949,099 and 968,699 shares of Common Stock and 373,388 and 375,637 shares of Class B Common Stock have been granted as of December 31, 1994 and September 30, 1995, respectively. The terms of the plan require the option price per share to be equivalent to fair market value. Options are for a term of ten years and may be exercised as determined by the Option Committee. The Option Committee may waive the vesting period and permit options to be exercised immediately.

1983 Executive Stock Option Plan - for directors, officers and key employees. This plan expired in February 1993; therefore, no additional options may be granted. Options as to 48,547 shares of Common Stock and 8,978 shares of Class B Common Stock are outstanding under this plan at December 31, 1994. The terms of the plan required the option price per share to be equivalent to fair market value. Options are for a term of ten years and, generally, may be exercised in annual 20% installments beginning one year after grant. The Option Committee may waive the vesting period and permit options to be exercised immediately.

WATSCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Summarized information for the above plans is as follows:

	YEAR ENDED DECEMBER 31,			SEPTEMBER 30,
	1992	1993	1994	1995
				(UNAUDITED)
Options outstanding at beginning of period	872,968	865,711	1,032,612	1,066,286
Granted	837,355	219,750	104,025	31,250
Exercised	(801,457)	(31,144)	(46,426)	(22,712)
Cancelled	(43,155)	(21,705)	(23,925)	(16,088)
Options outstanding at end of period	865,711	1,032,612	1,066,286	1,058,736
Exercisable at end of period	263,892	533,685	791,788	873,732
Available for future grant	423,034	120,738	50,013	28,164
Average prices of options exercised	\$ 5.55	\$ 5.00	\$ 6.61	\$ 6.43
Price range of options outstanding at end of period	\$ 4.13 to 8.50	\$ 4.21 to 10.67	\$ 5.00 to 11.00	\$ 5.00 to 15.25

The Company has a profit sharing retirement plan for its employees (other than Heating & Cooling's) which is qualified under Section 401(k) of the Internal Revenue Code. The Company makes an annual matching contribution equal to 50% of eligible employee compensation deferrals (not to exceed 1.5% of compensation), in cash or the Company's common stock, to the plan on behalf of its employees. Heating & Cooling sponsors a separate 401(k) plan and makes a matching cash contribution. For the years ended December 31, 1992, 1993 and 1994, aggregate contributions to these plans were \$165,000, \$207,000 and \$268,000, respectively.

In 1993, Watsco implemented a reverse split-dollar insurance program for its officers providing Watsco with limited interests in the policies including death benefits aggregating approximately \$5 million plus any prepaid and unearned premiums. Under the insurance program, the officers retain all incidents of ownership in excess of the Company's limited interests. For the years ended December 31, 1993 and 1994, the Company recorded expense of \$45,000 and \$49,000, respectively, related to this program.

The Company has a Key Executive Non-Qualified Deferred Compensation Plan. At December 31, 1994, there were two individuals participating in this plan. For the years ended December 31, 1992, 1993 and 1994, the Company recorded expense of \$95,000, \$45,000 and \$158,000, respectively, related to this plan.

8. ACQUISITIONS

Effective April 23, 1993, Watsco acquired 80% and Rheem acquired 20% of the common stock of Comfort Supply, a Texas-based distributor of residential central air conditioners and related parts and supplies, for approximately \$4,022,000. The cash consideration paid by Watsco amounted to \$3,418,000 and was made out of a portion of the proceeds from the sale of Watsco's Common Stock completed in February 1993 (see Note 11).

On June 12, 1993, Heating & Cooling purchased certain accounts and notes receivable, inventory and other operating assets from Air Conditioning Sales, Inc. ("ACS"), a wholesale distributor of residential central air conditioners and related parts and supplies operating four distribution centers in central California. Consideration for the purchase included the assumption of certain liabilities aggregating \$5,080,000 (including \$2,042,000

payable to Rheem), a cash payment of \$2,073,000 to an escrow account for the settlement of certain obligations of the seller and a cash payment to the seller of \$211,000. In connection with this transaction, Heating & Cooling issued \$2,000,000 of its 6.5% Series A Preferred Stock (the "H&C Preferred Stock") to Rheem in settlement of a like amount of accounts payable due Rheem. The H&C Preferred Stock is in preference to the common stock of Heating & Cooling in any dissolution or winding up and may be redeemed at any time at the option of Heating & Cooling. Cumulative dividends are paid annually on January 1. The H&C Preferred Stock is included in minority interests in the accompanying consolidated balance sheets.

The above acquisitions were accounted for under the purchase method of accounting and, accordingly, the results of operations of the acquired companies have been included in the consolidated statements of income beginning on the dates of acquisition. The excess of the aggregate purchase price over the tangible net assets acquired of \$1,705,000 is being amortized on a straight-line basis over 40 years.

The unaudited pro forma information of the Company as if the above acquisitions had occurred on January 1, 1992 and giving effect to the three-for-two stock split, is as follows (in thousands, except per share data):

	YEAR ENDED DECEMBER 31,	
	1992	1993
Revenues	\$ 247,376	\$ 249,630
Net Income	\$ 3,283	\$ 5,072
Primary earnings per share	\$.71	\$.85
Fully diluted earnings per share	\$.65	\$.82

The unaudited pro forma information is not necessarily indicative of either the results of operations that would have occurred had the above companies been acquired and the Company actually been combined during the years presented or of future results of operations of the combined companies.

9. INSURANCE PROCEEDS

Following Hurricane Andrew in August 1992, the Company filed insurance claims for business interruption. In June 1993, the Company received net proceeds of \$1,130,000 from its insurance carrier.

10. PUT/CALL AGREEMENTS

The Company and Rheem have executed a shareholder agreement with respect to Gemaire that provides, among other things that annually during any election period, as defined, after the year ended December 31, 1992, the Company could "put" its ownership interest in Gemaire to Rheem and, after the year ended December 31, 1996, Rheem could "call" the Company's ownership interest in Gemaire, at a price based on a valuation formula. The put/call price is defined as the Company's ownership percentage multiplied by the greater of (i) an amount equal to (a) seven times the average of Gemaire's highest EBIT (earnings before interest and taxes) for each of the three out of the four full fiscal years immediately preceding the date the put/call price is being calculated, less (b) the total amount of Gemaire's interest-bearing bank debt as reflected in the most recent fiscal year audited financial statements or (ii) an amount equal to (a) Gemaire's tangible net book value as of the closing date, plus (b) goodwill arising out of the acquisition of Gemaire.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the years ended December 31, 1991, 1992, 1993 and 1994, EBIT for Gemaire was \$4,449,000, \$5,327,000, \$6,351,000 and \$7,659,000, respectively, and interest-bearing bank debt and book value were \$9,100,000 and \$11,411,000, respectively, at December 31, 1994.

The Company and Rheem have also executed a shareholder agreement with respect to Heating & Cooling which provides, among other things, that annually during any election period, as defined, after the year ended December 31, 1995, the Company can "put" its ownership interest in Heating & Cooling to Rheem and after the year ended December 31, 1996, that Rheem can "call" the Company's ownership interest in Heating & Cooling, at a price based on a valuation formula. The put/call price is defined as the Company's ownership percentage multiplied by the greater of (i) an amount equal to (a) six times Heating & Cooling's highest annual EBIT during the four full fiscal years immediately preceding the date of the exercise less (b) specified long-term debt as of the date of the balance sheet for the fiscal year immediately preceding the exercise date, less (c) a working capital adjustment, as defined, if any; or (ii) an amount equal to (a) Heating & Cooling's tangible net book value as of the closing date, plus (b) the goodwill arising out of the acquisition of Heating & Cooling by the Company, plus (c) \$5,000,000.

For the years ended December 31, 1991, 1992, 1993 and 1994, EBIT for Heating & Cooling was \$4,254,000, \$4,708,000, \$2,892,000 and \$3,532,000, respectively, and its book value was \$12,846,000 at December 31, 1994. The specified long-term debt and working capital adjustment, if any, cannot be calculated until the year of exercise.

The Company and Rheem have also executed a shareholder agreement with respect to Comfort Supply which provides, among other things, that annually during any election period, as defined, after the year ended December 31, 1996, the Company can "put" its ownership interest in Comfort Supply to Rheem and that Rheem can "call" the Company's ownership interest in Comfort Supply, at a price based on a valuation formula. The put/call price is defined as the Company's ownership percentage multiplied by the greater of: (i) an amount equal to seven times the average of Comfort Supply's highest EBIT for each of the three out of the four full fiscal years immediately prior to the election period or (ii) an amount equal to (a) Comfort Supply's tangible net book value as of the closing date, plus (b) goodwill arising out of the acquisition of Comfort Supply, plus (c) \$2,000,000.

For the fiscal years ended December 22, 1993 and December 23, 1994, EBIT for Comfort Supply was \$2,721,000 and \$3,503,000, respectively, and its book value was \$5,325,000 at December 22, 1994.

See Note 15 for an update of the put/call agreements.

Combined summarized financial information of Gemaire, Heating & Cooling and Comfort Supply, net of minority interests, is as follows (in thousands):

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1992	1993	1994	1994	1995
				(UNAUDITED)	
Total revenues.....	\$146,269	\$181,524	\$229,796	\$174,110	\$209,241
Net income	\$ 3,175	\$ 4,555	\$ 5,199	\$ 4,370	\$ 5,557
Total assets	\$ 59,730	\$ 84,749	\$ 88,719	\$102,826	\$116,842

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. SHAREHOLDERS' EQUITY

The authorized capital stock of the Company at December 31, 1993 and 1994 is 10,000,000 shares of Common Stock (redesignated from Class A Common Stock in June 1994) and 4,000,000 shares of Class B Common Stock. Common Stock and Class B Common Stock share equally in the earnings of the Company, and are identical in most other respects except (i) Common Stock has limited voting rights, each share of Common Stock being entitled to one vote on most matters and each share of Class B Common Stock being entitled to ten votes; (ii) shareholders of Common Stock are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common Stock without paying a cash dividend on Class B Common Stock and no cash dividend may be paid on Class B Common Stock unless at least an equal cash dividend is paid on Common Stock; and (iv) Class B Common Stock is convertible at any time into Common Stock on a one for one basis at the option of the shareholder.

In April 1992, the Company declared a 5% stock dividend on its Common Stock and Class B Common Stock and issued 117,558 shares of Common Stock and 68,889 shares of Class B Common Stock.

In September 1992, the Company registered for sale 450,000 shares of its Common Stock and subsequently sold 79,200 shares and realized net proceeds of \$563,000.

In February 1993, the Company completed the sale of 1,200,000 shares of Common Stock resulting in net proceeds of \$9,495,000. In connection with the sale of these shares, the Company deregistered the remainder of the unsold shares related to the September 1992 registration described above.

12. COMMITMENTS AND CONTINGENCIES

At December 31, 1994, the Company is obligated under non-cancelable operating leases of real property and equipment used in its operations for minimum annual rentals as follows: \$3,704,000 in 1995; \$2,769,000 in 1996; \$2,264,000 in 1997; \$1,327,000 in 1998; \$745,000 in 1999 and \$903,000 thereafter. Rental expense for the years ended December 31, 1992, 1993 and 1994 was \$2,865,000, \$3,584,000 and \$4,026,000, respectively.

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

13. INDUSTRY SEGMENT INFORMATION

At December 31, 1994, the Company operated principally in two industry segments. Operations in the Climate Control segment are conducted through the Company's three distribution subsidiaries, Gemaire, Heating & Cooling and Comfort Supply, which distribute residential central air conditioners to both the homebuilding and replacement markets. This segment's operations also include the Watsco Components, Inc., Cam-Stat, Inc. and Rho Sigma, Inc. subsidiaries which manufacture and sell air conditioning, heating and refrigeration components and accessories to original equipment manufacturers and the service and repair markets. Operations in the Personnel Services segment are through Dunhill Personnel System, Inc., which provides temporary help and permanent placement services throughout the United States and Canada. There are no sales between industry segments. Operating profit is total revenues less operating expenses. Identifiable assets by industry are those assets that are used in the Company's operations in each segment. Corporate assets consist primarily of cash and cash equivalents, marketable securities and real property. Export sales totaled approximately \$4,676,000, \$3,555,000 and \$6,606,000 for the years ended December 31, 1992, 1993 and 1994, respectively.

WATSCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(IN THOUSANDS)

	CLIMATE CONTROL	PERSONNEL SERVICES	OTHER	CONSOLIDATED
	-----	-----	-----	-----
YEAR ENDED DECEMBER 31, 1993				
Revenues.....	\$ 203,067	\$ 27,589		\$ 230,656
	=====	=====		=====
Operating income.....	\$ 12,589	\$ 422		\$ 13,011
	=====	=====		
Insurance proceeds.....				1,130
Interest expense.....				(2,756)
Unallocated corporate expenses.....				(1,621)
Investment income, net.....				383

Income before income taxes and minority interests.....				\$ 10,147
				=====
Identifiable assets.....	\$ 99,628	\$ 6,817		\$ 106,445
	=====	=====		
Corporate assets.....				3,240

Total assets.....				\$ 109,685
				=====
Depreciation and amortization.....	\$ 1,165	\$ 150	\$176	\$ 1,491
	=====	=====	=====	=====
Capital expenditures, net.....	\$ 2,470	\$ 36	\$488	\$ 2,994
	=====	=====	=====	=====
YEAR ENDED DECEMBER 31, 1994				
Revenues.....	\$ 253,433	\$ 30,298		\$ 283,731
	=====	=====		=====
Operating income.....	\$ 16,401	\$ 1,216		\$ 17,617
	=====	=====		
Interest expense.....				(3,155)
Unallocated corporate expenses.....				(2,574)
Investment income, net.....				140

Income before income taxes and minority interests.....				\$ 12,028
				=====
Identifiable assets.....	\$ 106,415	\$ 7,952		\$ 114,367
	=====	=====		
Corporate assets.....				5,297

Total assets.....				\$ 119,664
				=====
Depreciation and amortization.....	\$ 1,851	\$ 270	\$224	\$ 2,345
	=====	=====	=====	=====
Capital expenditures, net.....	\$ 3,455	\$ 316	\$377	\$ 4,148
	=====	=====	=====	=====
NINE MONTHS ENDED SEPTEMBER 30, 1995				
Revenues.....	\$ 226,689	\$ 23,501		\$ 250,190
	=====	=====		=====
Operating income.....	\$ 16,273	\$ 882		\$ 17,155
	=====	=====		
Interest expense.....				(3,064)
Unallocated corporate expenses.....				(1,628)
Investment income, net.....				181

Income before income taxes and minority interests.....				\$ 12,644
				=====
Identifiable assets.....	\$ 136,191	\$ 7,939		\$ 144,130
	=====	=====		
Corporate assets.....				3,435

Total assets.....				\$ 147,565
				=====
Depreciation and amortization.....	\$ 1,685	\$ 141	\$231	\$ 2,057
	=====	=====	=====	=====
Capital expenditures, net.....	\$ 2,338	\$ 378	\$449	\$ 3,165
	=====	=====	=====	=====

WATSCO, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. UNAUDITED QUARTERLY FINANCIAL DATA

Summarized unaudited quarterly results of operations for the years ended December 31, 1993 and 1994 and for the nine months ended September 30, 1995 are as follows (in thousands, except per share data):

	1ST QUARTER -----	2ND QUARTER (1) -----	3RD QUARTER -----	4TH QUARTER -----	TOTAL -----
YEAR ENDED DECEMBER 31, 1993:					
Revenues.....	\$38,652	\$59,546	\$72,474	\$59,984	\$230,656
Gross profit.....	9,031	13,732	16,094	13,073	51,930
Net income	343	2,216	1,830	652	5,041
Earnings per share (2):					
Primary.....	.07	.37	.29	.10	.85
Fully diluted.....	.07	.35	.28	.10	.82
YEAR ENDED DECEMBER 31, 1994:					
Revenues.....	\$55,252	\$75,827	\$82,805	\$69,847	\$283,731
Gross profit.....	13,218	16,717	18,731	14,546	63,212
Net income.....	690	1,926	2,307	839	5,762
Earnings per share (2):					
Primary.....	.11	.30	.36	.13	.89
Fully diluted.....	.11	.29	.35	.13	.87
NINE MONTHS ENDED SEPTEMBER 30, 1995:					
Revenues.....	\$60,321	\$91,062	\$98,807		
Gross profit.....	14,735	20,144	21,668		
Net income.....	901	2,301	2,831		
Earnings per share (2):					
Primary.....	.14	.35	.42		
Fully diluted.....	.13	.34	.41		

(1) The second quarter of 1993 includes the non-recurring receipt of insurance proceeds for business interruption claims made by the Company following Hurricane Andrew, which had the effect of increasing net income by \$706,000. Excluding this item, fully diluted earnings per share was \$.24 (\$.25 primary) for the second quarter of 1993 and \$.71 (\$.73 primary) for the year ended December 31, 1993.

(2) Quarterly earnings per share are calculated on an individual basis and, because of rounding and changes in the weighted average shares outstanding during the year, in total may not equal the amount calculated for the year as a whole.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. SUBSEQUENT EVENTS

On March 13, 1995, Gemaire purchased certain accounts receivable, inventory and other operating assets and assumed certain liabilities of H.B. Adams, a wholesale distributor of residential air conditioners and related parts and supplies operating seven branch locations in central Florida. Cash consideration paid by Gemaire totaled approximately \$7.8 million and is subject to adjustment upon the completion of an audit of the assets purchased and liabilities assumed.

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

On June 5, 1995, the shareholders approved and amended the Company's Amended and Restated Articles of Incorporation to increase the number of authorized shares of Common Stock, par value \$.50, to 40,000,000.

On October 26, 1995, the Company purchased certain accounts receivable, inventory and other operating assets and assumed certain liabilities of Central Air Conditioning Distributors, Inc., a Winston-Salem, North Carolina-based wholesale distributor of air conditioning, heating and refrigeration products operating five branch locations, for \$9.0 million. The purchase price is subject to adjustment upon the completion of an audit of the assets purchased and liabilities assumed. In connection with this acquisition, the Company assumed liabilities of \$2.1 million. The excess of aggregate purchase price over the fair value of the net assets acquired will be amortized on a straight-line basis over 40 years.

In December 1995, the Company entered into an interest rate swap agreement with a bank to hedge \$10 million of variable-rate debt outstanding.

In January 1996, the Company and Rheem amended the Gemaire, Heating & Cooling and Comfort Supply put/call agreements delaying Rheem's right to call the Company's ownership interest in Gemaire, Heating & Cooling and Comfort Supply until the election period, as defined, in 1998.

In December 1995, the Company entered into a letter of intent to acquire the assets and certain liabilities of Three States Supply, Inc. ("Three States"), a distributor of building materials used primarily in the heating and air conditioning industry.

In January 1996, the Company plans to file a secondary offering with the Securities and Exchange Commission to sell 1,400,000 shares of Common Stock during February 1996. Such shares will consist of 1,000,000 newly issued shares and 400,000 shares from selling shareholders. The Company plans to use the net proceeds to acquire Three States, to repay a portion of the Company's outstanding borrowings under its revolving credit facilities and for general corporate purposes, including possible future acquisitions.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE BOARD OF DIRECTORS OF
THREE STATES SUPPLY COMPANY, INC.

We have audited the accompanying balance sheet of Three States Supply Company, Inc. (a Tennessee corporation and subsidiary of UIS, Inc.) as of December 31, 1994 and the related statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Three States Supply Company, Inc. as of December 31, 1994 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

RHEA & IVY, P.L.C.

Memphis, Tennessee,

February 7, 1995 (except with respect to
the matter discussed in Note 7, as to
which the date is January 18, 1996)

THREE STATES SUPPLY COMPANY, INC.

BALANCE SHEETS

(IN THOUSANDS)

	DECEMBER 31, 1994	SEPTEMBER 30, 1995
	-----	-----
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash	\$ 355	\$ 1,531
Accounts receivable, less allowance for doubtful accounts of \$52,000 at December 31, 1994 and \$111,000 at September 30, 1995 (unaudited)	5,545	6,596
Inventories	6,663	6,039
Prepaid expenses	46	78
Deferred income taxes	140	175
	-----	-----
Total current assets	12,749	14,419
Property and equipment:		
Land	257	283
Buildings and leasehold improvements	1,417	1,440
Machinery and equipment	3,870	4,210
	-----	-----
	5,544	5,933
Less: Accumulated depreciation	(2,744)	(3,076)
	-----	-----
	2,800	2,857
Other assets	10	--
	-----	-----
	\$ 15,559	\$ 17,276
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,138	\$ 1,906
Accrued compensation and other expenses	715	702
Income taxes payable	592	783
	-----	-----
Total current liabilities	2,445	3,391
Noncurrent liabilities:		
Due to parent company	4,628	4,220
Deferred income taxes	160	171
	-----	-----
Total noncurrent liabilities	4,788	4,391
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Common stock - authorized, 20,000 shares of \$10.00 par value; issued and outstanding, 1,000 shares	10	10
Retained earnings	8,316	9,484
	-----	-----
Total shareholders' equity	8,326	9,494
	-----	-----
	\$ 15,559	\$ 17,276
	=====	=====

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

THREE STATES SUPPLY COMPANY, INC.
STATEMENTS OF INCOME AND RETAINED EARNINGS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 1994	NINE MONTHS ENDED SEPTEMBER 30,	
	-----	1994	1995
		----- (UNAUDITED) -----	
Net sales	\$ 44,941	\$ 33,723	\$ 36,234
Cost of sales	34,896	26,161	27,735
	-----	-----	-----
Gross profit	10,045	7,562	8,499
Selling, general and administrative expenses	8,374	6,486	6,795
	-----	-----	-----
Operating income	1,671	1,076	1,704
Other income and expense, net	208	171	225
	-----	-----	-----
Income before income taxes	1,879	1,247	1,929
Income taxes	(738)	(489)	(761)
	-----	-----	-----
Net income	1,141	758	1,168
Retained earnings, beginning of period	7,175	7,175	8,316
	-----	-----	-----
Retained earnings, end of period	\$ 8,316	\$ 7,933	\$ 9,484
	=====	=====	=====

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

THREE STATES SUPPLY COMPANY, INC.

STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED	NINE MONTHS ENDED	
	DECEMBER 31, 1994	SEPTEMBER 30, 1994 1995	
		(UNAUDITED)	
Cash flows from operating activities			
Net income	\$ 1,141	\$ 758	\$ 1,168
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization	531	398	401
Provision (benefit) deferred income taxes	15	--	(24)
Gain on disposal of property	(27)	(27)	(15)
Cash provided by (used in) changes in assets and liabilities:			
Accounts and notes receivable	(657)	(1,386)	(1,051)
Prepaid expenses and other assets	5	(12)	(22)
Inventories	(332)	256	624
Accounts payable	(470)	(312)	768
Other accrued expenses	129	238	(13)
Income taxes payable	104	1	191
Total adjustments	(702)	(844)	859
Net cash provided by (used in) operating activities.....	439	(86)	2,027
Cash flows from investing activities			
Purchase of property and equipment	(804)	(749)	(458)
Proceeds from the sale of property and equipment	54	54	15
Net cash used in investing activities	(750)	(695)	(443)
Cash flows from financing activities			
Advances from parent company	1,034	788	1,592
Repayments of advances from parent company	(500)	--	(2,000)
Net cash provided by (used in) financing activities.....	534	788	(408)
Net increase in cash	223	7	1,176
Cash, beginning of period	132	132	355
Cash, end of period	\$ 355	\$ 139	\$ 1,531
Supplemental disclosure of cash flow information:			
State income taxes paid	\$ 137	\$ 102	\$ 131

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

THREE STATES SUPPLY COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS

(INFORMATION WITH RESPECT TO SEPTEMBER 30, 1994 AND 1995 IS UNAUDITED)

NOTE (1) - SUMMARY OF ACCOUNTING POLICIES

Three States Supply Company, Inc., a Tennessee corporation (hereinafter referred to as the "Company") is a 99.8% owned subsidiary of UIS, Inc. (the "Parent"). The Company is engaged in the wholesale distribution of building materials primarily used in the air conditioning and heating industry.

The accompanying unaudited financial statements as of September 30, 1995 and for the nine month periods ended September 30, 1994 and 1995 have been prepared in accordance with generally accepted accounting principles for interim financial information. Except as disclosed herein, there has been no material change in the information disclosed in the notes to the financial statements of the Company included herein. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the nine month period ended September 30, 1995 are not necessarily indicative of the results that may be expected for the year ending December 31, 1995.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements is as follows:

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to credit risk consist principally of cash and accounts receivable. The Company places its temporary cash with high credit quality financial institutions. Concentrations of credit risk with respect to accounts receivable are limited due to the large numbers of customers comprising its customer base. The Company establishes and monitors an allowance for doubtful accounts based on the credit risk of specific customers, historical trends and other information.

INVENTORIES

Inventories are stated at the lower of cost or market; cost is determined using the last-in, first-out ("LIFO") method as more fully described in Note 2.

DEPRECIATION AND AMORTIZATION

Depreciation of property and equipment is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives, using the straight-line method. Leasehold improvements are amortized over the lives of the respective leases or the useful lives of the improvements, whichever is shorter.

Depreciation and amortization expense was \$531,000 for the year ending December 31, 1994.

THREE STATES SUPPLY COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The useful lives of property and equipment for purposes of computing depreciation and amortization are:

Buildings and leasehold improvements	5-20 years
Machinery and equipment	3-10 years

INCOME TAXES

The taxable income of the Company is included in the consolidated tax return of the Parent and, accordingly, taxes are reported using the separate return method under a tax sharing arrangement with the Parent. Deferred tax assets and liabilities reflect the future tax consequences of the differences between the financial reporting and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

NOTE (2) - EFFECT OF LIFO INVENTORY ON OPERATIONS

Inventories consist primarily of finished goods and are stated at the lower of cost, determined by the LIFO method, or market. If the first-in, first-out ("FIFO") method had been used for all inventories, inventories would have been increased by \$2,380,000 at December 31, 1994 and \$2,486,000 at September 30, 1995 (unaudited) and cost of sales would have been decreased by \$394,000 for the year ended December 31, 1994 and \$106,000 for the nine month period ended September 30, 1995 (unaudited). The effect of the LIFO inventory decrement for the nine month period ended September 30, 1995 (unaudited) had the effect of reducing cost of sales by \$104,000 for the period. A summary of inventory is as follows (in thousands):

	DECEMBER 31, 1994	SEPTEMBER 30, 1995
	-----	-----
		(UNAUDITED)
Inventories at FIFO	\$ 9,043	\$ 8,525
LIFO reserve	(2,380)	(2,486)
	-----	-----
Inventories at LIFO	\$ 6,663	\$ 6,039
	=====	=====

NOTE (3) - EMPLOYEE BENEFIT PLAN

The Company maintains a defined contribution savings and investment plan whereby employees can elect to contribute up to 10% of their annual gross earnings to the plan. The Company, at its discretion, may match 50% of the employees' contributions of up to 5% of the employees' gross annual earnings (as defined in the plan). The Company has elected to match the maximum allowable under the plan. Contributions of \$60,000 were recorded in the accompanying income statement for the year ended December 31, 1994.

THREE STATES SUPPLY COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE (4) - DUE TO PARENT COMPANY

The amount due to Parent represents cash advances to the Company from the Parent and is noninterest bearing. It is not expected that the amount due will be paid in the following year, therefore it is classified as a noncurrent liability.

NOTE (5) - INCOME TAXES

The income tax provision for the year ended December 31, 1994 consists of (in thousands):

Federal	\$607
State	131

	\$738
	====
Current	\$723
Deferred	15

	\$738
	====

A reconciliation of the provision for federal income taxes from the federal statutory rate of the Parent (35%) to the effective income tax rate as reported for the year ended December 31, 1994 is as follows (in thousands):

Federal statutory rate	35.0%
State taxes, net of Federal benefit	4.0%
Other, net	0.3%

	39.3%
	====

THREE STATES SUPPLY COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The following is a summary of the significant components of the Company's deferred tax assets and liabilities at December 31, 1994 (in thousands):

Deferred tax assets, current:	
Accounts receivable reserves	\$ 18
Capitalized inventory costs	108
Other	14

	\$ 140
	=====
Deferred tax liabilities, noncurrent:	
Depreciation and amortization	\$(145)
Other	(15)

	(160)

Net deferred tax liability	\$ (20)
	=====

Management believes that it is more likely than not the deferred tax assets will be utilized; accordingly, no valuation allowance is required.

NOTE (6) - COMMITMENTS AND CONTINGENCIES

The Company conducts a portion of its operations from leased warehouses. The following is a schedule by year of future minimum rental payments under non-cancellable operating leases for each of the year ended December 31 (in thousands):

1995.....	\$322
1996.....	213
1997.....	198
1998.....	145
1999.....	26

	\$904
	=====

Rent expense for leased facilities totaled \$365,000 for the year ended December 31, 1994.

THREE STATES SUPPLY COMPANY, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE (7) - SUBSEQUENT EVENT

In January 1996, the Parent entered into a letter of intent to sell the net assets and business of the Company to Watsco, Inc. The transaction is dependent upon the completion of a definitive purchase agreement. The accompanying financial statements do not include the effects, if any, on the carrying amount of assets and liabilities relative to the transaction contemplated in the letter of intent.

UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma combined financial information gives effect to the Company's proposed acquisition of the assets and certain liabilities of Three States Supply Company, Inc. ("Three States"), expected to be consummated during the first quarter of 1996. The Company's acquisition of Three States is subject to various conditions, including the negotiation of an asset purchase agreement, and accordingly there can be no assurance that such purchase will be consummated. The pro forma information is based on the historical financial statements of the Company and Three States. This proposed acquisition is being accounted for under the purchase method of accounting.

The unaudited pro forma combined balance sheet as of September 30, 1995 gives effect to the Three States acquisition, the issuance and sale by the Company of common stock and the application of the net proceeds therefrom, as if they had been consummated on September 30, 1995. This balance sheet combines the unaudited historical balance sheets as of September 30, 1995 of the Company and Three States.

The unaudited pro forma combined income statement for the year ended December 31, 1994 gives effect to the Three States acquisition, the issuance and sale by the Company of common stock and the application of the net proceeds therefrom, as if they had been consummated on January 1, 1994. This pro forma income statement combines the audited statements for the year ended December 31, 1994 of the Company and Three States.

The unaudited pro forma combined income statement for the nine months ended September 30, 1995 gives effect to the Three States acquisition, the issuance and sale by the Company of common stock and the application of the net proceeds therefrom, as if they had been consummated on January 1, 1995. This pro forma income statement combines the unaudited income statement for the nine months ended September 30, 1995 of the Company and Three States.

The pro forma statements may not necessarily be indicative of the results that would actually have been obtained had the Three States acquisition occurred on the dates indicated or which may be obtained in the future. In the opinion of the Company's management, all adjustments necessary to present fairly such pro forma financial statements have been included. This unaudited pro forma combined financial information should be read in conjunction with the historical financial statements and related notes of the Company and Three States, which appear elsewhere in this Prospectus.

UNAUDITED PRO FORMA COMBINED BALANCE SHEET

SEPTEMBER 30, 1995

(IN THOUSANDS)

	COMPANY	THREE STATES	PRO FORMA ADJUSTMENTS DR (CR)	PRO FORMA COMBINED
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 3,190	\$ 1,531	\$16,900 (1) (16,296) (2)	\$ 5,325
Marketable securities.....	1,281	--		1,281
Accounts receivable, net.....	47,413	6,596		54,009
Inventories.....	61,654	6,039	2,486 (2)	70,179
Prepaid expenses and other current assets.....	5,123	253	(175) (2)	5,201
Total current assets.....	118,661	14,419	2,915	135,995
Property, plant and equipment, net.....	10,537	2,857		13,394
Intangible assets, net.....	14,353	--	100 (2)	14,453
Other assets.....	4,014	--		4,014
	<u>\$147,565</u>	<u>\$17,276</u>	<u>\$3,015</u>	<u>\$167,856</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Current portion of long-term obligations.....	\$ 744	\$ --		\$ 744
Borrowings under revolving credit agreement.....	49,433	--		49,433
Accounts payable and accrued liabilities.....	23,499	3,391		26,890
Total current liabilities.....	73,676	3,391		77,067
Long-term Obligations:				
Due to parent company.....	--	4,220	\$4,220 (2)	--
Bank and other debt.....	4,026	--		4,026
Subordinated note.....	2,500	--		2,500
Convertible subordinated debentures.....	1,341	--		1,341
	7,867	4,220	4,220	7,867
Deferred income taxes.....	638	171	171 (2)	638
Minority interests.....	12,780	--		12,780
Shareholders' equity:				
Common Stock.....	2,392	10	(500) (1) 10 (2)	2,892
Class B Common Stock.....	742	--		742
Paid-in capital.....	19,205	--	(16,400) (1)	35,605
Retained earnings.....	30,265	9,484	9,484 (2)	30,265
Total shareholders' equity.....	52,604	9,494	(7,406)	69,504
	<u>\$147,565</u>	<u>\$17,276</u>	<u>\$(3,015)</u>	<u>\$167,856</u>

The accompanying notes to unaudited pro forma combined financial statements are an integral part of this statement.

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME

YEAR ENDED DECEMBER 31, 1994

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	COMPANY	THREE STATES	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----	-----
Revenues	\$ 283,731	\$ 44,941		\$ 328,672
Cost of sales and direct service expenses	220,519	34,896	\$ (394)(3)	255,021
Gross profit	63,212	10,045	394	73,651
Selling, general and administrative expenses	48,169	8,374		56,543
Operating income	15,043	1,671	394	17,108
Other income.....	140	208	25(4)	373
Interest expense	3,155	--		3,155
Income before income taxes and minority interests	12,028	1,879	419	14,326
Income taxes	4,630	738	163(5)	5,531
Minority interests	1,636	--		1,636
Net income	\$ 5,762	\$ 1,141	\$ 256	\$ 7,159
	=====	=====	=====	=====
Earnings per share:				
Primary	\$.89			\$.96
Fully diluted	\$.87			\$.94
	=====			=====
Weighted average shares outstanding:				
Primary	6,326			7,326
Fully diluted	6,646			7,646
	=====			=====

The accompanying notes to unaudited pro forma combined financial statements are an integral part of this statement.

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME

NINE MONTHS ENDED SEPTEMBER 30, 1995

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	COMPANY	THREE STATES	PRO FORMA ADJUSTMENTS	PRO FORMA COMBINED
	-----	-----	-----	-----
Revenues	\$ 250,190	\$ 36,234		286,424
Cost of sales and direct service expenses	193,643	27,735	\$ (106)(3)	221,272
Gross profit	56,547	8,499	106	65,152
Selling, general and administrative expenses	41,020	6,795		47,815
Operating income	15,527	1,704	106	17,337
Other income	181	225	18(4)	424
Interest expense	3,064	--		3,064
Income before income taxes and minority interests	12,644	1,929	124	14,697
Income taxes	4,867	761	48(5)	5,676
Minority interests	1,744	--		1,744
Net income	\$ 6,033	\$ 1,168	\$ 76	\$ 7,277
	=====	=====	=====	=====
Earnings per share:				
Primary.....	\$.91			\$.96
Fully diluted.....	\$.87			\$.92
	=====			=====
Weighted average shares outstanding:				
Primary.....	6,508			7,508
Fully diluted.....	6,930			7,930
	=====			=====

The accompanying notes to unaudited pro forma combined financial statements are an integral part of this statement.

NOTES TO UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE DATA)

- (1) Represents the net proceeds from the issuance of 1,000,000 shares of the Company's Common Stock at an assumed offering price of \$18.375 per share are determined as follows:

Gross proceeds on 1,000,000 shares.....	\$18,375
Payment of estimated underwriters discount and offering expenses.....	1,475

Net proceeds from Common Stock.....	\$16,900
	=====

- (2) Represents the estimated purchase price for Three States determined as follows:

Net assets of Three States.....	\$ 9,494
Write-up of inventories to fair market value.....	2,486
Due to parent company not assumed by the Company.....	4,220
Net liability not assumed by the Company.....	(4)
Payment of acquisition expenses.....	100

Total purchase price.....	\$16,296
	=====

- (3) The inventories included in the historical financial statements of Three States are stated based on the last-in, first-out method. Subsequent to the acquisition of Three States, such inventory amounts will be stated by the Company based on the first-in, first-out ("FIFO") method. These amounts represent an adjustment to cost of sales using the FIFO method as if Three States valued inventories under this method as of the beginning of each period presented in the accompanying pro forma combined financial statements.

- (4) Represents interest income generated on the remaining net proceeds of the offering not used for the acquisition of Three States.

- (5) Represents pro forma income taxes at the Company's blended statutory tax rate of 39%.

NO DEALER, SALESPERSON OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY, ANY OF THE SELLING SHAREHOLDERS OR ANY OF THE UNDERWRITERS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF ANY OFFER TO BUY ANY SECURITY OTHER THAN THE SHARES OF COMMON STOCK OFFERED BY THIS PROSPECTUS, NOR DOES IT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF ANY OFFER TO BUY THE SHARES OF COMMON STOCK BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED, OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO, OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

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1,400,000 SHARES

WATSCO

COMMON STOCK

 PROSPECTUS

PRUDENTIAL SECURITIES INCORPORATED

February , 1996

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

	TO BE PAID BY THE COMPANY	TO BE PAID BY THE SELLING SHAREHOLDERS
	-----	-----
Securities and Exchange Commission registration fee.....	\$7,615	\$2,517
NASD filing fee.....	2,584	855
New York Stock Exchange listing fees.....	4,235	
Blue Sky fees and expenses.....	6,500	
Printing and engraving expenses.....	60,000	
Legal fees and expenses.....	135,000	
Accounting fees and expenses.....	50,000	
Miscellaneous.....	59,066	
	-----	-----
Total.....	\$325,000	\$3,372
	=====	=====

All amounts except the Securities and Exchange Commission registration fee, the NASD filing fee and the New York Stock Exchange listing fee are estimated.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 607.0850 of the Florida Business Corporation Act permits a Florida corporation to indemnify a present or former director or officer of the corporation (and certain other persons serving at the request of the corporation in related capacities) for liabilities, including legal expenses, arising by reason of service in such capacity if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and in any criminal proceeding if such person had no reasonable cause to believe his conduct was unlawful. However, in the case of actions brought by or in the right of the corporation, no indemnification may be made with respect to any matter as to which such director or officer shall have been adjudged liable, except in certain limited circumstances.

Article VII of the Company's Articles of Incorporation provides that the Company shall indemnify any present or former director or officer of the Company (and certain other persons serving at the request of the Company in related capacities) for liabilities incurred in connection with litigation and by reason of service in such capacity, except in relation to matters as to which he shall be adjudged in such action to be liable for negligence or misconduct in the performance of his duties.

Article VIII of the Company's bylaws provides that the Company shall indemnify its officers and directors to the fullest extent permitted by law. The Company maintains a standard policy of directors and officers liability insurance covering directors and officers of the Company with respect to liabilities incurred as a result of their service in such capacities.

ITEM 16. EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
1.1	Proposed form of Underwriting Agreement*
4.1	Company's Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated June 30, 1995 and incorporated herein by reference).
4.2	Company's Amended Bylaws (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1985 and incorporated herein by reference).
5.1	Opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A. as to the validity of the Common Stock being registered.*
10.27	Revolving Credit Agreement dated October 26, 1995 by and between CAC Acquisition, Inc. and NationsBank of Florida, N.A.*
10.28	Letter Agreement dated January 1, 1996 from Rheem Manufacturing Company related to the Subscription and Shareholder Agreements of Gemaire Distributors, Inc., Heating & Cooling Supply, Inc. and Comfort Supply, Inc.*
23.1	Consent of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A. (included in its opinion filed as Exhibit 5.1).*
23.2	Consent of Arthur Andersen LLP*
23.3	Consent of Rhea & Ivy, P.L.C.*

* Filed herewith.

ITEM 17. UNDERTAKINGS.

(a) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(b) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

(3) For purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial BONA FIDE offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, State of Florida, on January 19, 1996.

WATSCO, INC.

By: /s/ RONALD P. NEWMAN

 Ronald P. Newman, Chief Financial Officer, Secretary
 and Treasurer

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the date indicated.

SIGNATURE -----	TITLE -----	DATE ----
/s/ ALBERT H. NAHMAD ----- Albert H. Nahmad	Chairman of the Board (principal executive officer)	January 22, 1996
/s/ RONALD P. NEWMAN ----- Ronald P. Newman	Chief Financial Officer, Secretary and Treasurer (principal financial and accounting officer)	January 22, 1996
/s/ D. A. COAPE-ARNOLD ----- D. A. Coape-Arnold	Director	January 22, 1996
/s/ DAVID B. FLEEMAN ----- David B. Fleeman	Director	January 22, 1996
/s/ JAMES S. GRIEN ----- James S. Grien	Director	January 22, 1996
/s/ PAUL F. MANLEY ----- Paul F. Manley	Director	January 22, 1996
/s/ BOB L. MOSS ----- Bob L. Moss	Director	January 22, 1996
/s/ ROBERTO MOTTA ----- Roberto Motta	Director	January 22, 1996
/s/ ALAN H. POTAMKIN ----- Alan H. Potamkin	Director	January 22, 1996

WATSCO, INC.

1,400,000 Shares*

Common Stock

UNDERWRITING AGREEMENT

_____, 1996

PRUDENTIAL SECURITIES INCORPORATED

As Representative of the several Underwriters

One New York Plaza

New York, New York 10292

Dear Sirs:

Each of Watsco, Inc., a Florida corporation (the "Company"), and the shareholders of the Company named in Schedule 2 hereto (the "Selling Securityholders") hereby confirms its agreement with the several underwriters named in Schedule 1 hereto (the "Underwriters"), for whom you have been duly authorized to act as representative (in such capacity, the "Representative"), as set forth below. If you are the only Underwriter, all references herein to the Representative shall be deemed to be to the Underwriter.

1. SECURITIES. Subject to the terms and conditions herein contained, the Company proposes to issue and sell to the several Underwriters an aggregate of 1,000,000 shares (the "Company Firm Securities") of the Company's Common Stock, par value \$0.50 per share (the "Common Stock"). The Company also proposes to issue and sell to the several Underwriters not more than 210,000 additional shares of Common Stock if requested by the Representative as provided in Section 3 of this Agreement. Any and all shares of Common Stock to be purchased by the Underwriters pursuant to such option are referred to herein as the "Option Securities". Subject to the terms and conditions herein contained, the Selling Securityholders propose to sell to the several Underwriters an aggregate of 400,000 shares of Common Stock (the "Selling Securityholder Firm Securities" and together with the Company Firm Securities, the "Firm Securities"). The Firm Securities and any Option Securities are collectively referred to herein as the "Securities".

- - - - -
* Plus an option to purchase from Watsco, Inc. up to 210,000 additional shares to cover over-allotments.

2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY AND THE SELLING SECURITYHOLDERS.

(a) The Company and each Selling Securityholder identified in Schedule 2 hereto as a Group 1 Selling Securityholder (collectively, the "Group 1 Selling Securityholders"), to the best of such Group 1 Selling Securityholder's knowledge, jointly and severally, represent and warrant to, and agree with, each of the several Underwriters that:

- (i) The Company meets the requirements for use of Form S-3 under the Securities Act of 1933, as amended (the "Act"). A registration statement on such form (File No. 33-_____) with respect to the Securities, including a prospectus subject to completion, has been filed by the Company with the Securities and Exchange Commission (the "Commission") under the Act, and one or more amendments to such registration statement may have been so filed. After the execution of this Agreement, the Company will file with the Commission either (A) if such registration statement, as it may have been amended, has been declared by the Commission to be effective under the Act either (1) if the Company relies on Rule 434 under the Act, a Term Sheet (as hereinafter defined) relating to the Securities, that shall identify the Preliminary Prospectus (as hereinafter defined) that it supplements, and, if required to be filed pursuant to Rules 434(c)(2) and 424(b), an Integrated Prospectus (as hereinafter defined), in either case, containing such information as is required or permitted by Rules 434, 430A and 424(b) under the Act or (2) if the Company does not rely on Rule 434 under the Act, a prospectus in the form most recently included in an amendment to such registration statement (or, if no such amendment shall have been filed, in such registration statement), with such changes or insertions as are required by Rule 430A under the Act or permitted by Rule 424(b) under the Act, and in the case of either clause (A)(1) or (A)(2) of this sentence as have been provided to and approved by the Representative prior to the execution of this Agreement, or (B) if such registration statement, as it may have been amended, has not been declared by the Commission to be effective under the Act, an amendment to such registration statement, including a form of prospectus, a copy of which amendment has been furnished to and approved by the Representative prior to the execution of this Agreement. The Company may also file a related registration statement

with the Commission pursuant to Rule 462(b) under the Act for the purpose of registering certain additional Securities, which registration shall be effective upon filing with the Commission. As used in this Agreement, the term "Original Registration Statement" means the registration statement initially filed relating to the Securities, as amended at the time when it was or is declared effective, including (A) all financial schedules and exhibits thereto, (B) all documents incorporated by reference therein filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act") and (C) any information omitted therefrom pursuant to Rule 430A under the Act and included in the Prospectus (as hereinafter defined) or, if required to be filed pursuant to Rules 434(c)(2) and 424(b), in the Integrated Prospectus; the term "Rule 462(b) Registration Statement" means any registration statement filed with the Commission pursuant to Rule 462(b) under the Act (including the Original Registration Statement and any Preliminary Prospectus or Prospectus incorporated therein at the time such Registration Statement becomes effective); the term "Registration Statement" includes both the Original Registration Statement and any Rule 462(b) Registration Statement; the term "Preliminary Prospectus" means each prospectus subject to completion filed with such registration statement or any amendment thereto (including the prospectus subject to completion, if any, included in the Registration Statement or any amendment thereto at the time it was or is declared effective), including all documents incorporated by referenced therein filed under the Exchange Act; the term "Prospectus" means:

- (A) if the Company relies on Rule 434 under the Act, the Term Sheet relating to the Securities that is first filed pursuant to Rule 424(b)(7) under the Act, together with the Preliminary Prospectus identified therein that such Term Sheet supplements;
- (B) if the Company does not rely on Rule 434 under the Act, the prospectus first filed with the Commission pursuant to Rule 424(b) under the Act; or
- (C) if the Company does not rely on Rule 434 under the Act and if no prospectus is required to be

filed pursuant to Rule 424(b) under the Act, the prospectus included in the Registration Statement,

including, in the case of the immediately foregoing clause (A), (B) or (C) of this sentence, all documents incorporated by reference therein filed under the Exchange Act. The term "Integrated Prospectus" means a prospectus first filed with the Commission pursuant to Rules 434(c)(2) and 424(b) under the Act; and the term "Term Sheet" means any abbreviated Term Sheet that satisfies the requirements of Rule 434 under the Act. Any reference in this Agreement to an "amendment or supplement" to any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or an "amendment" to any registration statement (including the Registration Statement) shall be deemed to include any document incorporated by reference therein that is filed with the Commission under the Exchange Act after the date of such Preliminary Prospectus, Prospectus, any Integrated Prospectus, or registration statement, as the case may be; any reference herein to the "date" of a Prospectus that includes a Term Sheet shall mean the date of such Term Sheet. For purposes of the preceding sentence, any reference to the "effective date" of an amendment to a registration statement shall, if such amendment is effected by means of the filing with the Commission under the Exchange Act of a document incorporated by reference in such registration statement, be deemed to refer to the date on which such document was filed with the Commission.

- (ii) The Commission has not issued any order preventing or suspending the use of any Preliminary Prospectus. When any Preliminary Prospectus and any amendment or supplement thereto was filed with the Commission, it (A) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of, the Act, the Exchange Act and the respective rules and regulations of the Commission thereunder, and (B) did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. When the Registration Statement or any amendment thereto was or is declared effective, it (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply

in all material respects with the requirements of the Act, the Exchange Act and the respective rules and regulations of the Commission thereunder and (B) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading. When the Prospectus or any Term Sheet that is a part thereof or any Integrated Prospectus or any amendment or supplement to the Prospectus is filed with the Commission pursuant to Rule 424(b) (or, if the Prospectus or part thereof or such amendment or supplement is not required to be so filed, when the Registration Statement or the amendment thereto containing such amendment or supplement to the Prospectus was or is declared effective), on the date when the Prospectus is otherwise amended or supplemented and on the Firm Closing Date and any Option Closing Date (both as hereinafter defined), each of the Prospectus and, if required to be filed pursuant to Rules 434(c)(2) and 424(b) under the Act, the Integrated Prospectus as amended or supplemented at any such time, (A) contained or will contain all statements required to be stated therein in accordance with, and complied or will comply in all material respects with the requirements of the Act, the Exchange Act and the respective rules and regulations of the Commission thereunder and (B) did not or will not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The foregoing provisions of this paragraph (ii) do not apply to statements or omissions made in any Preliminary Prospectus or any amendment or supplement thereto, the Registration Statement or any amendment thereto, the Prospectus or, if required to be filed pursuant to Rules 434(c)(2) and 424(b) under the Act, the Integrated Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by any Underwriter through the Representative specifically for use therein.

- (iii) If the Company has elected to rely on Rule 462(b) and the Rule 462(b) Registration Statement has not been declared effective (i) the Company has filed a Rule 462(b) Registration Statement in compliance with and that is effective upon filing pursuant to Rule 462(b) and has received confirmation of its receipt and (ii) the Company has given irrevocable instructions for transmission of the applicable filing fee in connection with

the filing of the Rule 462(b) Registration Statement, in compliance with Rule 111 promulgated under the Act or the Commission has received payment of such filing fee.

- (iv) The Company and each of its subsidiaries have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where the ownership or leasing of their respective properties or the conduct of their respective businesses requires such qualification, except where the failure to be so qualified does not amount to a material liability or disability to the Company and its subsidiaries, taken as a whole.
- (v) The Company and each of its subsidiaries have full power (corporate or other) to own or lease their respective properties and conduct their respective businesses as described in the Registration Statement, each of the Prospectus and any Integrated Prospectus or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus; and the Company has full power (corporate or other) to enter into this Agreement and to carry out all the terms and provisions hereof to be carried out by it.
- (vi) The issued shares of capital stock of each of the Company's subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and, except as otherwise set forth in each of the Prospectus and any Integrated Prospectus or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus, are owned beneficially by the Company free and clear of any security interests, liens, encumbrances, equities or claims.
- (vii) The Company has an authorized, issued and outstanding capitalization as set forth in each of the Prospectus and any Integrated Prospectus or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus. All of the issued shares of capital stock of the Company, including the Securities to be sold by the Selling Securityholders hereunder, have been duly authorized and validly issued and are fully paid and nonassessable. The Company Firm Securities and the Option Securities have been duly authorized and at the Firm Closing Date or the related

Option Closing Date (as the case may be), after payment therefor in accordance herewith, will be validly issued, fully paid and nonassessable. No holders of outstanding shares of capital stock of the Company are entitled as such to any preemptive or other rights to subscribe for any of the Securities, and no holder of securities of the Company has any right which has not been fully exercised or waived to require the Company to register the offer or sale of any securities owned by such holder under the Act in the public offering contemplated by this Agreement.

- (viii) The capital stock of the Company conforms to the description thereof contained in each of the Prospectus and any Integrated Prospectus or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus.
- (ix) The consolidated financial statements and schedules of the Company and its consolidated subsidiaries included in the Registration Statement, each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus) fairly present the financial position of the Company and its consolidated subsidiaries and the results of changes in operation and financial condition as of the dates and periods therein specified. Such financial statements and schedules have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved (except as otherwise noted therein). The unaudited pro forma financial data, together with the related notes thereto, included in the Registration Statement and the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus) include all adjustments necessary to present fairly the pro forma financial data at the dates and for the periods indicated, and all assumptions used in preparing such pro forma financial data are reasonable. The selected financial data set forth under the caption "Selected Financial Data" in the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus and in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 fairly present, on the basis stated in the each of the Prospectus and

any Integrated Prospectus (or such Preliminary Prospectus) and such Annual Report, the information included therein.

- (x) Arthur Andersen LLP and Rhea & Ivy, PLC, who have certified certain financial statements of the Company and its consolidated subsidiaries and Three States Supply Company, Inc. ("Three States") and its consolidated subsidiaries, respectively, and delivered their respective reports with respect to the audited consolidated financial statements and schedules included in the Registration Statement, each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus) for each of the Company and its consolidated subsidiaries and Three States and its consolidated subsidiaries, are independent public accountants with respect to such entities as required by the Act, the Exchange Act and the related published rules and regulations thereunder.
- (xi) The execution and delivery of this Agreement have been duly authorized by the Company and this Agreement has been duly executed and delivered by the Company.
- (xii) No legal or governmental proceedings are pending to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that are required to be described in the Registration Statement, the Prospectus or any Integrated Prospectus and are not described therein (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus), and no such proceedings have been threatened against the Company or any of its subsidiaries or with respect to any of their respective properties; and no contract or other document is required to be described in the Registration Statement, the Prospectus or any Integrated Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus) or filed as required.
- (xiii) The issuance, offering and sale of the Firm Securities and the Option Securities to the Underwriters by the Company pursuant to this Agreement, the compliance by the Company with the other provisions of this Agreement and the consummation of the other transactions herein contemplated do not (A) require

the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained, such as may be required under state securities or blue sky laws and, if the registration statement filed with respect to the Securities (as amended) is not effective under the Act as of the time of execution hereof, such as may be required (and shall be obtained as provided in this Agreement) under the Act, or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any material indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties are bound, or the charter documents or by-laws of the Company or any of its subsidiaries, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to the Company or any of its subsidiaries, except for such judgments, decrees, orders, rules or regulations of any local court or local governmental authority or any local arbitrator applicable to the Company or any of its subsidiaries, the violation, breach or default of which would not have a material adverse effect on the Company and its subsidiaries as a whole.

- (xiv) The Company has not, directly or indirectly, (A) taken any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (B) since the filing of the Registration Statement (1) sold, bid for, purchased, or paid anyone any compensation for soliciting purchases of, the Common Stock (including the Securities), the Class B Common Stock, par value \$0.50 per share, of the Company (the "Class B Common Stock"), any securities convertible into, or exchangeable or exercisable for, shares of Common Stock or Class B Common Stock or (2) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by the Selling Securityholders under this Agreement).
- (xv) Subsequent to the respective dates as of which information is given in the Registration Statement, the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required

Integrated Prospectus are not in existence, the most recent Preliminary Prospectus), (A) the Company and its subsidiaries have not incurred any liability or obligation, direct or contingent, nor entered into any transaction not in the ordinary course of business, which would have a material adverse effect on the Company and its subsidiaries as a whole; (B) the Company has not purchased any of its outstanding capital stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock; and (C) there has not been any change in the capital stock, short-term debt or long-term debt of the Company and its consolidated subsidiaries, except in each case as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus), which would have a material adverse effect on the Company and its subsidiaries as a whole.

- (xvi) The Company and each of its subsidiaries have good and indefeasible title in fee simple to all items of real property and indefeasible title to all personal property owned by each of them, in each case free and clear of any security interests, liens, encumbrances, equities, claims and other defects, except such as do not materially and adversely affect the value of such property and do not interfere with the use made or proposed to be made of such property by the Company or such subsidiary, and any real property and buildings held under lease by the Company or any such subsidiary are held under valid, subsisting and enforceable leases, with such exceptions as are not material and do not interfere with the use made or proposed to be made of such property and buildings by the Company or such subsidiary, in each case except as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).
- (xvii) No labor disruption with the employees of the Company or any of its subsidiaries exists or is overtly threatened that could result in a material adverse change in the condition (financial or otherwise), business prospects, net worth or results of operations of the Company and its subsidiaries taken as a whole, except as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus

and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).

- (xviii) No default exists, and no event has occurred which, with notice or lapse of time or both, would constitute a default in the due performance and observance of any term, covenant or condition of any indenture, mortgage, deed of trust, lease or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties is bound, which would have material adverse effect on the Company and its subsidiaries as a whole.
- (xix) The Company and each of its subsidiaries own or possess, or can acquire on reasonable terms, all material patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by them in connection with their respective businesses, and neither the Company nor any such subsidiary has received any notice of or conflict with asserted rights of any third party with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a material adverse change in the condition (financial or otherwise), business prospects, net worth or results of operations of the Company and its subsidiaries, except as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).
- (xx) The Company and each of its subsidiaries are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; neither the Company nor any such subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any such subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the Company and its subsidiaries as a whole, except as described in or contemplated by each of the Prospectus and any Integrated

Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).

- (xxi) No subsidiary of the Company is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on such subsidiary's capital stock, from repaying to the Company any loans or advances to such subsidiary from the Company or from transferring any of such subsidiary's property or assets to the Company or any other subsidiary of the Company, except as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).
- (xxii) The Company and its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, and neither the Company nor any such subsidiary has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a material adverse change in the Company and its subsidiaries as a whole, except as described or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).
- (xxiii) The Company has filed all foreign, federal, state and local tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not have a material adverse effect on the Company and its subsidiaries as a whole) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except to the extent that any such assessment, fine or penalty would not have a material adverse effect on the Company and its subsidiaries as a whole or as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).

- (xxiv) Neither the Company nor any of its subsidiaries is in violation of any federal or state law or regulation relating to occupational safety and health or to the storage, handling or transportation of hazardous or toxic material and the Company and its subsidiaries have received all permits, licenses or other approvals required of them under applicable federal and state occupational safety and health and environmental laws and regulations to conduct their respective businesses, and the Company and each such subsidiary is in compliance with all terms and conditions of any such permit, license or approval, except any such violation of law or regulation, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals which would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries as a whole, except as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).
- (xxv) Each certificate signed by any officer of the Company and delivered to the Representative or counsel for the Underwriters shall be deemed to be a representation and warranty by the Company to each Underwriter as to the matters covered thereby.
- (xxvi) Except for the shares of capital stock of each of the subsidiaries owned by the Company and such subsidiaries, neither the Company nor any such subsidiary owns any shares of stock or any other equity securities of any corporation or has any equity interest in any firm, partnership, association or other entity, except as described in or contemplated by each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).
- (xxvii) The Company has complied with all provisions of Section 517.075, Florida Statutes (Chapter 92-198, Laws of Florida) to the extent such provisions are applicable to the Company.
- (xxviii) The Company has not distributed and, prior to the later of (A) the Firm Closing Date and (B) the completion of the distribution of the Securities, will not distribute any offering

material in connection with the offering and sale of the Securities other than the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any supplement or amendment thereto, or any materials, if any permitted by the Act.

(xxix) Except as disclosed in each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus), there are no outstanding (A) securities or obligations of the Company or any of its subsidiaries convertible into or exchangeable for any capital stock of the Company or any such subsidiary, (B) warrants, rights or options to subscribe for or purchase from the Company or any such subsidiary any such capital stock or any such convertible or exchangeable securities or obligations, or (C) obligations of the Company or any such subsidiary to issue any shares of capital stock, any such convertible or exchangeable securities or obligations, or any such warrants, rights or options.

(b) The Group 2 Selling Securityholder represents and warrants to, and agrees with, each of the several Underwriters that, to the extent that any statements or omissions are made in the Registration Statement, any Preliminary Prospectus, the Prospectus, any Integrated Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information furnished to the Company by the Group 2 Selling Securityholder specifically for use therein, such information in the Preliminary Prospectus, the Registration Statement, the Prospectus, any Integrated Prospectus and any amendments or supplements thereto, when they become effective or are filed with the Commission, as the case may be, did and will conform in all material respects to the requirements of the Act, the Exchange Act and the respective rules and regulations of the Commission thereunder and will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading. The Group 2 Selling Securityholder has reviewed the Prospectus and any Integrated Prospectus or if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus, and the Registration Statement, and the information regarding the Group 2 Selling Securityholder set forth therein under the caption "Selling Shareholders" is complete and accurate.

(c) Each Selling Securityholder represents and warrants to, and agrees with, each of the several Underwriters that:

- (i) Such Selling Securityholder has full power to enter into this Agreement and to sell, assign, transfer and deliver to the Underwriters the Securities to be sold by such Selling Securityholder hereunder in accordance with the terms of this Agreement; and this Agreement has been duly executed and delivered by such Selling Securityholder.
- (ii) Such Selling Securityholder has duly executed and delivered a power of attorney and custody agreement (with respect to such Selling Securityholder, the "Power-of-Attorney" and the "Custody Agreement", respectively), each in the form heretofore delivered to the Representative, appointing Albert H. Nahmad and Ronald P. Newman as such Selling Securityholder's attorney-in-fact (the "Attorney-in-Fact") with authority to execute, deliver and perform this Agreement on behalf of such Selling Securityholder and appointing First Union Bank, as custodian thereunder (the "Custodian"). Certificates in negotiable form, endorsed in blank or accompanied by blank stock powers duly executed, with signatures appropriately guaranteed, representing the Securities to be sold by such Selling Securityholder hereunder have been deposited with the Custodian pursuant to the Custody Agreement for the purpose of delivery pursuant to this Agreement. Such Selling Securityholder has full power to enter into the Custody Agreement and the Power-of-Attorney and to perform its obligations under the Custody Agreement. The Custody Agreement and the Power-of-Attorney have been duly executed and delivered by such Selling Securityholder and, assuming due authorization, execution and delivery by the Custodian, are the legal, valid, binding and enforceable instruments of such Selling Securityholder. Such Selling Securityholder agrees that each of the Securities represented by the certificates on deposit with the Custodian is subject to the interests of the Underwriters hereunder, that the arrangements made for such custody, the appointment of the Attorney-in-Fact and the right, power and authority of the Attorney-in-Fact to execute and deliver this Agreement, to agree on the price at which the Securities (including such Selling Securityholder's Securities) are to be sold to the Underwriters, and to carry out the terms of this Agreement, are to that extent irrevocable and that the obligations of such Selling Securityholder hereunder shall not be terminated, except as provided in this Agreement or the Custody Agreement, by any act of such Selling Securityholder, by operation of law or otherwise, whether in the case of any

individual Selling Securityholder by the death or incapacity of such Selling Securityholder, in the case of a trust or estate by the death of the trustee or trustees or the executor or executors or the termination of such trust or estate, or in the case of a corporate or partnership Selling Securityholder by its liquidation or dissolution or by the occurrence of any other event. If any individual Selling Securityholder, trustee or executor should die or become incapacitated or any such trust should be terminated, or if any corporate or partnership Selling Securityholder shall liquidate or dissolve, or if any other event should occur, before the delivery of such Securities hereunder, the certificates for such Securities deposited with the Custodian shall be delivered by the Custodian in accordance with the respective terms and conditions of this Agreement as if such death, incapacity, termination, liquidation or dissolution or other event had not occurred, regardless of whether or not the Custodian or the Attorney-in-Fact shall have received notice thereof.

- (iii) Such Selling Securityholder is the lawful owner of the Securities to be sold by such Selling Securityholder hereunder and upon sale and delivery of, and payment for, such Securities, as provided herein, such Selling Securityholder will convey good and valid title to such Securities, free and clear of any security interests, liens, encumbrances, equities, claims or other defects.
- (iv) Such Selling Securityholder has not, directly or indirectly, (A) taken any action designed to cause or result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Common Stock.
- (v) Such Selling Securityholder has not, since the filing of the Registration Statement (A) sold, bid for, purchased, or paid anyone any compensation for soliciting purchases of, the Common Stock (including the Securities), or the Class B Common Stock, or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock or the Class B Common Stock or (B) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by the Selling Securityholders under this Agreement).

- (vi) The Selling Securityholder is not aware of any adverse information concerning the Company that is not set forth in the Registration Statement, each of the Prospectus and any Integrated Prospectus (or, if the Prospectus and any required Integrated Prospectus are not in existence, the most recent Preliminary Prospectus).
- (vii) The sale of the Securities to the Underwriters by such Selling Securityholder pursuant to this Agreement, the compliance by such Selling Securityholder with the other provisions of this Agreement, the Custody Agreement and the consummation of the other transactions herein contemplated do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained, such as may be required under state securities or blue sky laws and, if the registration statement filed with respect to the Securities (as amended) is not effective under the Act as of the time of execution hereof, such as may be required (and shall be obtained as provided in this Agreement) under the Act and the Exchange Act or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under any indenture, mortgage, deed of trust, lease or other agreement or instrument to which such Selling Securityholder is a party or by which such Selling Securityholder or any of such Selling Securityholder's properties are bound, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to such Selling Securityholder which would constitute a material judgment, decree, order, rule or regulation or which would prevent the consummation of any transaction contemplated hereby.
- (viii) The Selling Stockholders have not distributed and, prior to the later of (A) the Firm Closing Date and (B) the completion of the distribution of the shares, will not distribute any offering material in connection with the offering and sale of the shares other than the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto, or other materials, if any, permitted by the Act.
- (ix) In order to document the Underwriters' compliance with the reporting and withholding provisions of the Internal Revenue Code of 1986, as amended, with respect to the transactions

herein contemplated, the Selling Stockholders agree to deliver to you prior to or on the Firm Closing Date, as hereinafter defined, a properly completed and executed United States Treasury Department Form W-8 or W-9 (or other applicable form of statement specified by Treasury Department regulations in lieu thereof).

3. PURCHASE, SALE AND DELIVERY OF THE SECURITIES.

(a) On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company agrees to issue and sell, and each of the Selling Securityholders, severally and not jointly, agrees to sell, to each of the Underwriters, and each of the Underwriters, severally and not jointly, agrees to purchase from the Company and each of the Selling Securityholders, at a purchase price of \$___ per share, the number of Firm Securities (to be adjusted by you so as to eliminate fractional shares) determined by multiplying the aggregate number of Firm Securities to be sold by the Company and each of the Selling Securityholders as set forth opposite their respective names in Schedule 2 hereto by a fraction, the numerator of which is the aggregate number of Firm Securities to be purchased by such Underwriter as set forth opposite the name of such Underwriter in Schedule 1 hereto and the denominator of which is the aggregate number of Firm Securities to be purchased by all the Underwriters from the Company and each of the Selling Securityholders. One or more certificates in definitive form for the Firm Securities that the several Underwriters have agreed to purchase hereunder, and in such denomination or denominations and registered in such name or names as the Representative requests upon notice to the Company and each of the Selling Securityholders at least 48 hours prior to the Firm Closing Date, shall be delivered by or on behalf of the Company and each of the Selling Securityholders to the Representative for the respective accounts of the Underwriters, against payment by or on behalf of the Underwriters of the purchase price therefor by certified or official bank check or checks drawn upon or by a New York Clearing House bank and payable in next-day funds to the order of the Company or the Custodian as their interests may appear. Such delivery of and payment for the Firm Securities shall be made at the offices of King & Spalding, 120 W. 45th Street, New York, New York at 9:30 A.M., New York time, on _____, 1996, or at such other place, time or date as the Representative, the Company and each of the Selling Securityholders may agree upon or as the Representative may determine pursuant to Section 9 hereof, such time and date of delivery against payment being herein referred to as the "Firm Closing Date". The Company will make such certificate or certificates for the Firm Securities available for checking and packaging by the Representative at the offices in New York, New York of the Company's transfer agent or registrar or of Prudential Securities Incorporated at least 24 hours prior to the Firm Closing Date.

(b) For the purpose of covering any over allotments in connection with the distribution and sale of the Firm Securities as contemplated by each of the Prospectus and any Integrated Prospectus, the Company hereby grants to the several Underwriters an option to purchase, severally and not jointly, the Option Securities. The purchase price to be paid for any Option Securities shall be the same price per share as the price per share for the Firm Securities set forth above in paragraph (a) of this Section 3. The option granted hereby may be exercised as to all or any part of the Option Securities from time to time within thirty days after the date of the Prospectus (or, if such 30th day shall be a Saturday or Sunday or a holiday, on the next business day thereafter when the New York Stock Exchange is open for trading). The Underwriters shall not be under any obligation to purchase any of the Option Securities prior to the exercise of such option. The Representative may from time to time exercise the option granted hereby by giving notice in writing or by telephone (confirmed in writing) to the Company setting forth the aggregate number of Option Securities as to which the several Underwriters are then exercising the option and the date and time for delivery of and payment for such Option Securities. Any such date of delivery shall be determined by the Representative but shall not be earlier than two business days or later than three business days after such exercise of the option and, in any event, shall not be earlier than the Firm Closing Date. The time and date set forth in such notice, or such other time on such other date as the Representative and the Company may agree upon or as the Representative may determine pursuant to Section 9 hereof, is herein called the "Option Closing Date" with respect to such Option Securities. Upon exercise of the option as provided herein, the Company shall become obligated to sell to each of the several Underwriters, and, subject to the terms and conditions herein set forth, each of the Underwriters (severally and not jointly) shall become obligated to purchase from the Company, the same percentage of the total number of Option Securities as to which the several Underwriters are then exercising the option as such Underwriter is obligated to purchase of the aggregate number of Firm Securities, as adjusted by the Representative in such manner as it deems advisable to avoid fractional shares. If the option is exercised as to all or any portion of the Option Securities, one or more securities in definitive form for such Option Securities, and payment therefor, shall be delivered on the related Option Closing Date in the manner, and upon the terms and conditions, set forth in paragraph (a) of this Section 3, except that reference therein to the Firm Securities and the Firm Closing Date shall be deemed, for purposes of this paragraph (b), to refer to such Option Securities and Option Closing Date, respectively.

(c) It is understood that you, individually and not as the Representative, may (but shall not be obligated to) make payment on behalf of any Underwriter or Underwriters for any of the Securities to be purchased by such Underwriter or Underwriters. No such payment shall relieve such Underwriter or Underwriters from any of its or their obligations hereunder.

4. OFFERING BY THE UNDERWRITERS. Upon your authorization of the release of the Firm Securities, the several Underwriters propose to offer the Firm Securities for sale to the public upon the terms set forth in the Prospectus.

5. COVENANTS OF THE COMPANY AND THE SELLING SECURITYHOLDERS.

(a) The Company covenants and agrees with each of the Underwriters that:

- (i) The Company will use its best efforts to cause the Registration Statement, if not effective at the time of execution of this Agreement, and any amendments thereto to become effective as promptly as possible. If required, the Company will file the Prospectus or any Term Sheet that constitutes a part thereof, any Integrated Prospectus and any amendment or supplement thereto with the Commission in the manner and within the time period required by Rules 434 and 424(b) under the Act. During the time when a prospectus relating to the Securities is required to be delivered under the Act, the Company (A) will comply with all requirements imposed upon it by the Act, the Exchange Act and the respective rules and regulations of the Commission thereunder to the extent necessary to permit the continuance of sales of or dealings in the Securities in accordance with the provisions hereof and of each of the Prospectus and any Integrated Prospectus, as then amended or supplemented, and (B) will not file with the Commission, the Prospectus, Term Sheet or any Integrated Prospectus or the amendment referred to in the third sentence of Section 2(a)(i) hereof, any amendment or supplement to such Prospectus, Term Sheet or any Integrated Prospectus or any amendment to the Registration Statement (including amendments of the documents incorporated by reference therein) or any Rule 462(b) Registration Statement of which the Representative shall not previously have been advised and furnished with a copy for a reasonable period of time prior to the proposed filing and as to which filing the Representative shall not have given its consent. The Company will prepare and file with the Commission, in accordance with the rules and regulations of the Commission, promptly upon request by the Representative or counsel for the Underwriters, any amendments to the Registration Statement (including amendments of the documents incorporated by reference therein) or any Rule 462(b) Registration Statement or amendments or supplements to the Prospectus and any Integrated Prospectus that may be necessary or advisable in connection with the distribution of the

Securities by the several Underwriters, and will use its best efforts to cause any such amendment to the Registration Statement to be declared effective by the Commission as promptly as possible. The Company will advise the Representative, promptly after receiving notice thereof, of the time when the Registration Statement or any amendment thereto has been filed or declared effective or the Prospectus or any Integrated Prospectus or any amendment or supplement thereto has been filed and will provide evidence satisfactory to the Representative of each such filing or effectiveness.

- (ii) The Company will advise the Representative, promptly after receiving notice or obtaining knowledge thereof, of (A) the issuance by the Commission of any stop order suspending the effectiveness of the Original Registration Statement or any Rule 462(b) Registration Statement or any post-effective amendment thereto or any order directed at any document incorporated by reference in the Registration Statement, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto or any order preventing or suspending the use of any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto, (B) the suspension of the qualification of the Securities for offering or sale in any jurisdiction, (C) the institution, threatening or contemplation of any proceeding for any such purpose or (D) any request made by the Commission for amending the Original Registration Statement or any Rule 462(b) Registration Statement, for amending or supplementing any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or for additional information. The Company will use its best efforts to prevent the issuance of any such stop order and, if any such stop order is issued, to obtain the withdrawal thereof as promptly as possible.
- (iii) The Company will arrange for the qualification of the Securities for offering and sale under the securities or blue sky laws of such jurisdictions as the Representative may designate and will continue such qualifications in effect for as long as may be necessary to complete the distribution of the Securities, PROVIDED, HOWEVER, that in connection therewith the Company shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction.

- (iv) If, at any time prior to the later of (A) the final date when a prospectus relating to the Securities is required to be delivered under the Act or (B) the Option Closing Date, any event occurs as a result of which the Prospectus or any Integrated Prospectus, as then amended or supplemented, would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if for any other reason it is necessary at any time to amend or supplement the Prospectus or any Integrated Prospectus to comply with the Act, the Exchange Act or the respective rules or regulations of the Commission thereunder, the Company will promptly notify the Representative thereof and, subject to Section 5(a)(i) hereof, will prepare and file with the Commission, at the Company's expense, an amendment to the Registration Statement or an amendment or supplement to each of the Prospectus and any required Integrated Prospectus that corrects such statement or omission or effects such compliance.
- (v) The Company will, without charge, provide (A) to the Representative and to counsel for the Underwriters a conformed copy of the registration statement originally filed with respect to the Securities and each amendment thereto (in each case including exhibits thereto) or any Rule 462(b) Registration Statement, certified by the Secretary or an Assistant Secretary of the Company to be true and complete copies thereof as filed with the Commission by electronic transmission, (B) to each other Underwriter, a conformed copy of such registration statement and any Rule 462(b) Registration Statement and each amendment thereto (in each case without exhibits thereto) and (C) so long as a prospectus relating to the Securities is required to be delivered under the Act, as many copies of each Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto as the Representative may reasonably request; without limiting the application of clause (iii) of this sentence, the Company, not later than (A) 6:00 PM, New York City time, on the date of determination of the public offering price, if such determination occurred at or prior to 12:00 Noon, New York City time, on such date or (B) 6:00 PM, New York City time, on the business day following the date of determination of the public offering price, if such determination occurred after 12:00 Noon, New York City time, on such date, will deliver to the Representative,

without charge, as many copies of the Prospectus and any amendment or supplement thereto as the Representative may reasonably request for purposes of confirming orders that are expected to settle on the Firm Closing Date.

- (vi) The Company, as soon as practicable, will make generally available to its securityholders and to the Representative a consolidated earnings statement of the Company and its subsidiaries that satisfies the provisions of Section 11(a) of the Act and Rule 158 thereunder.
- (vii) The Company will apply the net proceeds from the sale of the Securities as set forth under "Use of Proceeds" in each of the Prospectus and any Integrated Prospectus.
- (viii) The Company will not, directly or indirectly, without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, offer, sell, offer to sell, contract to sell, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, grant of any option to purchase or other sale or disposition) of any shares of Common Stock or Class B Common Stock or any securities convertible into, or exchange or exercisable for, shares of Common Stock or Class B Common Stock for a period of 120 days after the date hereof, except pursuant to this Agreement and except for issuances pursuant to the exercise of employee stock options outstanding on the date hereof or pursuant to the terms of convertible securities of the Company outstanding on the date hereof.
- (ix) The Company will not, directly or indirectly, (A) take any action designed to cause or to result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities of (B) (1) sell, bid for, purchase, or pay anyone any compensation for soliciting purchases of, the Securities or (2) pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by the Selling Securityholders pursuant to this Agreement).
- (x) During a period of five years from the date of the Prospectus, the Company will deliver to you and, upon request, to each of

the other Underwriters, without charge, promptly upon their becoming available, copies of any current, regular and periodic reports filed with the Commission or any national securities exchange.

- (xi) If at any time during the 25-day period after the Registration Statement becomes effective or the period prior to the Option Closing Date, any rumor, publication or event relating to or affecting the Company shall occur as a result of which in your opinion the market price of the Common Stock has been or is likely to be materially affected (regardless of whether such rumor, publication or event necessitates a supplement to or amendment of the Prospectus or any Integrated Prospectus), the Company will, after written notice from you advising the Company to the effect set forth above, forthwith prepare, consult with you concerning the substance of, and disseminate a press release or other public statement, reasonably satisfactory to you responding to or commenting on such rumor, publication or event.
- (xii) If the Company elects to rely on Rule 462(b), the Company shall both file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) and pay the applicable fees in accordance with Rule 111 promulgated under the Act by the earlier of (i) 10:00 P.M. Eastern time on the date of this Agreement and (ii) the time confirmations are sent or given, as specified by Rule 462(b)(2).
- (xiii) The Company will obtain the agreements described in Section 7(j) hereof prior to the Firm Closing Date.
- (xiv) The Company will cause the Securities to be duly authorized for listing by the New York Stock Exchange.

(b) Each of the Selling Securityholders covenants and agrees with each of the Underwriters that:

- (i) Such Selling Securityholder will not, directly or indirectly, without the prior written consent of Prudential Securities Incorporated, offer, sell, offer to sell, contract to sell, pledge, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, contract of sale, pledge, grant of any option to purchase or other sale or disposition) of

any shares of Common Stock or Class B Common Stock legally or beneficially owned by such Selling Securityholder or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock or Class B Common Stock for a period of 120 days after the date hereof, other than any such securities disposed of as bona fide gifts to persons who agree in writing with you to be bound by the provisions of this clause.

- (ii) Such Selling Securityholder will not, directly or indirectly, (A) take any action designed to cause or result in, or that has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities or (B) (1) sell, bid for, purchase, or pay anyone any compensation for soliciting purchases of, the Securities or (2) pay or agree to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except for the sale of Securities by the Selling Securityholders under this Agreement).

6. EXPENSES. Except as provided in the immediately succeeding sentence, the Company and each of the Selling Securityholders will pay all costs and expenses incident to the performance of their respective obligations under this Agreement (on such basis as shall be agreed between them as described in Part II of the Registration Statement), whether or not the transactions contemplated herein are consummated or this Agreement is terminated pursuant to Section 11 hereof, including all costs and expenses incident to (i) the printing or other production of documents with respect to the transactions, including any costs of printing the registration statement originally filed with respect to the Securities and any amendment thereto, any Rule 462(b) Registration Statement, any Preliminary Prospectus, the Prospectus and any Integrated Prospectus and any amendment or supplement thereto, this Agreement and any blue sky memoranda, (ii) all arrangements relating to the delivery to the Underwriters of copies of the foregoing documents, (iii) the fees and disbursements of the counsel, accountants and any other experts or advisors retained by the Company, (iv) preparation, issuance and delivery to the Underwriters of any certificates evidencing the Securities, including transfer agent's and registrar's fees, (v) the qualification of the Securities under state securities and blue sky laws, including filing fees and disbursements of counsel for the Underwriters relating thereto, (vi) the filing fees of the Commission and the National Association of Securities Dealers, Inc. relating to the Securities, (vii) the listing of the Securities on the New York Stock Exchange, (viii) meetings with prospective investors in the Securities (other than shall have been specifically approved by the Representative to be paid for by the Underwriters), (ix) any fees and expenses of counsel for such Selling Securityholder and (x) the fees and expenses of the Attorney-in-Fact and the Custodian. Each of the Selling Securityholders will pay or cause to be paid all costs and expenses incident to the performance of such Selling Securityholder's obligations under this

Agreement which are not otherwise specifically provided for in this Section, including all expenses and taxes incident to the sale and delivery of the Securities to be sold by such Selling Securityholder to the Underwriters hereunder. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 7 hereof is not satisfied, because this Agreement is terminated pursuant to Section 11 hereof or because of any failure, refusal or inability on the part of the Company to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder other than by reason of a default by any of the Underwriters, the Company and the Selling Securityholders pro rata (based on the number of Firm Securities to be sold by the Company and such Selling Securityholder) will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities. Neither the Company nor any of the Selling Securityholders shall in any event be liable to any of the Underwriters for the loss of anticipated profits from the transactions covered by this Agreement.

7. CONDITIONS OF THE UNDERWRITERS' OBLIGATIONS. The obligations of the several Underwriters to purchase and pay for the Firm Securities shall be subject, in the Representative's sole discretion, to the accuracy of the representations and warranties of the Company and the Selling Securityholders contained herein as of the date hereof and as of the Firm Closing Date, as if made on and as of the Firm Closing Date, to the accuracy of the statements of the Company's officers and the Selling Securityholders made pursuant to the provisions hereof, to the performance by the Company and each of the Selling Securityholders of their respective covenants and agreements hereunder and to the following additional conditions:

(a) If the Original Registration Statement or any amendment thereto filed prior to the Firm Closing Date has not been declared effective as of the time of execution hereof, the Original Registration Statement or such amendment and, if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have been declared effective not later than earlier of (i) 11 A.M., New York time, on the date on which the amendment to the registration statement originally filed with respect to the Securities or to the Registration Statement, as the case may be, containing information regarding the initial public offering price of the Securities has been filed with the Commission, and (ii) the time confirmations are sent or given as specified by Rule 462(b)(2) or, with respect to the Original Registration Statement, such later time and date as shall have been consented to by the Representative; if required, the Prospectus or any Term Sheet that constitutes a part thereof and any Integrated Prospectus and any amendment or supplement thereto shall have been filed with the Commission in the manner and within the time period required by Rules 434 and 424(b) under the Act; no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto and no order directed at any document incorporated by reference in the Registration Statement, the Prospectus or any Integrated Prospectus or any

amendment or supplement thereto shall have been issued and no proceedings for that purpose shall have been instituted or threatened or, to the knowledge of the Company or the Representative, shall be contemplated by the commission; and the Company shall have complied with any request of the Commission for additional information (to be included in the Registration Statement, the Prospectus or any Integrated Prospectus or otherwise).

(b) The Representative shall have received an opinion, dated the Firm Closing Date, of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A., counsel for the Company, to the effect that:

- (i) the Company and each of its subsidiaries listed in Schedule 3 hereto (the "Subsidiaries") have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where the ownership or leasing of their respective properties or the conduct of their respective businesses requires such qualification, except where the failure to be so qualified does not amount to a material liability or disability to the Company and its subsidiaries, taken as a whole;
- (ii) the Company and each of the Subsidiaries have corporate power to own or lease their respective properties and conduct their respective businesses as described in the Registration Statement, the Prospectus and any Integrated Prospectus, and the Company has corporate power to enter into this Agreement and to carry out all the terms and provisions hereof to be carried out by it;
- (iii) the issued shares of capital stock of each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and, except as otherwise set forth in each of the Prospectus and any Integrated Prospectus, are owned beneficially by the Company free and clear of any perfected security interests or, to the best knowledge of such counsel, any other security interests, liens, encumbrances, equities or claims;
- (iv) the Company has an authorized capitalization as set forth in each of the Prospectus and any Integrated Prospectus; all of the issued shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable, have either been issued in compliance with the

registration requirements of all applicable federal and state securities laws or the applicable statute of limitation periods have expired without any claim having been made in respect thereof, and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities; the Firm Securities have been duly authorized by all necessary corporate action of the Company and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be validly issued, fully paid and nonassessable; the Firm Securities have been duly authorized for listing on The New York Stock Exchange; no holders of outstanding shares of capital stock of the Company are entitled as such to any preemptive or other rights to subscribe for any of the Securities; and no holders of securities of the Company are entitled to have such securities registered under the Registration Statement;

- (v) the statements set forth under the heading "Description of Common Stock" in each of the Prospectus and any Integrated Prospectus, insofar as such statements purport to summarize certain provisions of the capital stock of the Company, provide a fair summary of such provisions;
- (vi) the execution and delivery of this Agreement have been duly authorized by all necessary corporate action of the Company and this Agreement has been duly executed and delivered by the Company;
- (vii) to the best knowledge of such counsel, no legal or governmental proceedings are pending to which the Company or any of its subsidiaries is a party or to which the property of its Company or any of its subsidiaries is subject that are required to be described in the Registration Statement, the Prospectus or any Integrated Prospectus and are not described therein, and no such proceedings have been threatened against the Company or any of its subsidiaries or with respect to any of their respective properties; and no contract or other document is required to be described in the Registration Statement, the Prospectus or any Integrated Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein or filed as required;
- (viii) the issuance, offering and sale of the Securities to the Underwriters by the Company pursuant to this Agreement, the

compliance by the Company with the other provisions of this Agreement and the consummation of the other transactions herein contemplated do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained and such as may be required under state securities or blue sky laws, or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under, any material indenture, mortgage, deed of trust, lease or other agreement or instrument known to such counsel, to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries or any of their respective properties are bound, or the charter documents or the by-laws of the Company or any of the Subsidiaries, or any statute or any material judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator known to such counsel and applicable to the Company or any of its subsidiaries;

- (ix) the Registration Statement is effective under the Act; any required filing of the Prospectus or any Term Sheet that constitutes a part thereof pursuant to Rules 434 and 424(b) has been made in the manner and within the time period required by Rules 434 and 424(b); and no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto and no order directed at any document incorporated by reference in the Registration Statement, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto has been issued, and no proceedings for that purpose have been instituted or threatened or, to the best knowledge of such counsel, are contemplated by the Commission;
- (x) the registration statement originally filed with respect to the Securities and each amendment thereto, any Rule 462(b) Registration Statement, the Prospectus and any Integrated Prospectus (in each case, including the documents incorporated by reference therein but not including the financial statements and other financial information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act, the Exchange Act, and the respective rules and regulations of the Commission thereunder;

Such counsel shall also state that they have no reason to believe that the Registration Statement, as of its effective date, contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus or any Integrated Prospectus, as of its date or the date of such opinion, included or includes any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering any such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deems proper, on certificates of responsible officers of the Company and public officials and, as to matters involving the application of laws of any jurisdiction other than the State of Florida or the United States, to the extent satisfactory in form and scope to counsel for the Underwriters, upon the opinion of [insert name of local counsel] satisfactory to counsel for the Underwriters. Insofar as the opinion in clause (viii)(B) above relates to the Company's subsidiaries other than Gemaire Distributors, Inc., Heating & Cooling Supply, Inc., Comfort Supply, Inc., Central Air Conditioning Distributors, Inc., Dunhill Personnel System, Inc., Watsco Components, Inc., Rho Sigma, Inc., Cam-Stat, Inc. and P.E./Del Mar, Inc., such opinion may be limited to actual awareness of such counsel without any inquiry other than inquiries of officers of the Company. The foregoing opinion shall also state that the Underwriters are justified in relying upon such opinion of [insert name of local counsel], and copies of such opinion shall be delivered to the Representative and counsel for the Underwriters.

References to the Registration Statement, the Prospectus or any Integrated Prospectus in this paragraph (b) shall include any amendment or supplement thereto at the date of such opinion.

(c) The Selling Securityholders shall have furnished to the Representative the opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A., counsel for the Selling Securityholders, dated the Firm Closing Date, to the effect that:

- (i) Such Selling Securityholder has full power to enter into this Agreement, the Custody Agreement and the Power-of-Attorney and to sell, transfer and deliver the Securities being sold by such Selling Securityholder hereunder in the manner provided in this Agreement and to perform its obligations under the Custody Agreement; this Agreement, the Custody Agreement and the Power-of-Attorney have been duly executed and delivered by each Selling Securityholder; assuming due authorization, execution and delivery by the Custodian, the Custody Agreement and the Power-of-Attorney are the legal, valid, binding and enforceable instruments of such Selling

Securityholder, subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or at law);

- (ii) the delivery by each Selling Securityholder to the several Underwriters of certificates for the Securities being sold hereunder by such Selling Securityholder against payment therefor as provided herein, will convey good and valid title to such Securities to the several Underwriters, free and clear of all security interests, liens, encumbrances, equities, claims or other defects;
- (iii) the sale of the Securities to the Underwriters by such Selling Securityholder pursuant to this Agreement, the compliance by such Selling Securityholder with the other provisions of this Agreement, the Custody Agreement and the consummation of the other transactions herein contemplated do not (A) require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained and such as may be required under state securities or blue sky laws, or (B) conflict with or result in a breach or violation of any of the terms and provisions of, or constitute a default under any material indenture, mortgage, deed of trust, lease or other agreement or instrument to which such Selling Securityholder is a party or by which such Selling Securityholder or any of such Selling Securityholder's properties are bound, or any statute or any judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator applicable to such Selling Securityholder.

In rendering such opinion, such counsel may rely, as to matters of fact, to the extent such counsel deems proper, on certificates of responsible officers of the Company and public officials and, as to matters involving the application of laws of any jurisdiction other than the State of Florida or the United States, to the extent satisfactory in form and scope to counsel for the Underwriters, upon the opinion of [insert name of local counsel]. The foregoing opinion shall also state that the Underwriters are justified in relying upon such opinion of [insert name of local counsel], and copies of such opinion shall be delivered to the Representative and counsel for the Underwriters.

References to the Registration Statement, the Prospectus or any Integrated Prospectus in this paragraph (c) shall include any amendment or supplement thereto at the date of such opinion.

(d) The Representative shall have received an opinion, dated the Firm Closing Date, of King & Spalding counsel for the Underwriters, with respect to the issuance and sale of the Firm Securities, the Registration Statement, the Prospectus or any Integrated Prospectus, and such other related matters as the Representative may reasonably require, and the Company shall have furnished to such counsel such documents as they may reasonably request for the purpose of enabling them to pass upon such matters. In rendering such opinion, such counsel may rely as to all matters of Florida law upon the opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A., referred to in paragraph (b) above.

(e) The Representative shall have received from Arthur Anderson LLP a letter or letters dated, respectively, the date hereof and the Firm Closing Date, in form and substance satisfactory to the Representative to the effect that:

- (i) they are independent accountants with respect to the Company and its consolidated subsidiaries within the meaning of the Act, the Exchange Act and the applicable rules and regulations thereunder;
- (ii) in their opinion, the audited consolidated financial statements and schedules and pro forma financial statements of the Company examined by them and included in the Registration Statement, the Prospectus and any Integrated Prospectus comply in form in all material respects with the applicable accounting requirements of the Act, the Exchange Act and the related published rules and regulations thereunder;
- (iii) on the basis of their limited review in accordance with standards established by the American Institute of Certified Public Accountants of the interim unaudited consolidated condensed financial statements of the Company and its consolidated subsidiaries as of and for the nine months ended September 30, 1995 included in the Registration Statement, the Prospectus and any Integrated Prospectus, and carrying out certain specified procedures (which do not constitute an examination made in accordance with generally accepted auditing standards) that would not necessarily reveal matters of significance with respect to the comments set forth in this paragraph (iii), a reading of the minute books of the shareholders, the board of directors and any committees thereof

of the Company and each of its consolidated subsidiaries, and inquiries of certain officials of the Company and its consolidated subsidiaries who have responsibility for financial and accounting matters, nothing came to their attention that caused them to believe that:

- (A) the unaudited consolidated condensed financial statements of the Company and its consolidated subsidiaries included in the Registration Statement, the Prospectus and any Integrated Prospectus do not comply in form in all material respects with the applicable accounting requirements of the Act, the Exchange Act and the related published rules and regulations thereunder, or are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement, the Prospectus and any Integrated Prospectus; and
 - (B) at a specific date not more than five business days prior to the date of such letter, there were any changes in the capital stock or long-term debt of the Company and its consolidated subsidiaries or any decreases in net current assets or shareholders' equity of the Company and its consolidated subsidiaries, in each case compared with amounts shown on the September 30, 1995 unaudited consolidated condensed balance sheet included in the Registration Statement, the Prospectus and any Integrated Prospectus, or for the period from October 1, 1995 to such specified date there were any decreases, as compared with the corresponding period in the preceding year, in total revenues, income before income taxes and minority interests or total or per share amounts of net income of the Company and its consolidated subsidiaries, except in all instances for changes, decreases or increases set forth in such letter;
- (iv) they have carried out certain specified procedures, not constituting an audit, with respect to certain amounts, percentages and financial information that are derived from the general accounting records of the Company and its consolidated subsidiaries and are included in the Registration Statement, the Prospectus and any Integrated Prospectus and have compared

such amounts, percentages and financial information with such records of the Company and its consolidated subsidiaries and with information derived from such records and have found them to be in agreement, excluding any questions of legal interpretation; and

- (v) on the basis of a reading of the unaudited pro forma consolidated condensed financial statements included in the Registration Statement, the Prospectus and any Integrated Prospectus, carrying out certain specified procedures that would not necessarily reveal matters of significance with respect to the comments set forth in this paragraph (v), inquiries of certain officials of the Company and its consolidated subsidiaries and Three States who have responsibility for financial and accounting matters and proving the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the unaudited pro forma consolidated condensed financial statements, nothing came to their attention that caused them to believe that the unaudited pro forma consolidated condensed financial statements do not comply in form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X or that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of such statements.

In the event that the letters referred to above set forth any such changes, decreases or increases, it shall be a further condition to the obligations of the Underwriters that (A) such letters shall be accompanied by a written explanation of the Company as to the significance thereof, unless the Representative deems such explanation unnecessary, and (B) such changes, decreases, increases do not, in the sole judgment of the Representative, make it impractical or inadvisable to proceed with the purchase and delivery of the Securities as contemplated by the Registration Statement, as amended as of the date hereof.

References to the Registration Statement, the Prospectus and any Integrated Prospectus in this paragraph (e) with respect to either letter referred to above shall include any amendment or supplement thereto at the date of such letter.

(f) The Representative shall have received from Rhea & Ivy, PLC a letter or letters dated, respectively, the date hereof and the Firm Closing Date, in form and substance satisfactory to the Representative to the effect that:

- (i) they are independent accountants with respect to Three States and its consolidated subsidiaries within the meaning of the Act,

the Exchange Act and the applicable rules and regulations thereunder;

- (ii) in their opinion, the audited consolidated financial statements of Three States examined by them and included in the Registration Statement, the Prospectus and any Integrated Prospectus comply in form in all material respects with the applicable accounting requirements of the Act, the Exchange Act and the related published rules and regulations thereunder; and
- (iii) on the basis of their limited review in accordance with standards established by the American Institute of Certified Public Accountants of the interim unaudited consolidated condensed financial statements of Three States and its consolidated subsidiaries as of and for the nine months ended September 30, 1995 included in the Registration Statement, the Prospectus and any Integrated Prospectus, and carrying out certain specified procedures (which do not constitute an examination made in accordance with generally accepted auditing standards) that would not necessarily reveal matters of significance with respect to the comments set forth in this paragraph (iii), a reading of the minute books of the shareholders, the board of directors and any committees thereof of Three States and each of its consolidated subsidiaries, and inquiries of certain officials of Three States and its consolidated subsidiaries who have responsibility for financial and accounting matters, nothing came to their attention that caused them to believe that the unaudited consolidated condensed financial statements of Three States and its consolidated subsidiaries included in the Registration Statement, the Prospectus and any Integrated Prospectus do not comply in form in all material respects with the applicable accounting requirements of the Act, the Exchange Act and the related published rules and regulations thereunder, or are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited consolidated financial statements included in the Registration Statement, the Prospectus and any Integrated Prospectus.

(g) The Representative shall have received a certificate, dated the Firm Closing Date, of the principal executive officer and the principal financial or accounting officer of the Company to the effect that:

(i) the representations and warranties of the Company in this Agreement are true and correct as if made on and as of the Firm Closing Date; the Registration Statement, as amended as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, and the Prospectus and any Integrated Prospectus, as amended or supplemented as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and the Company has performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied at or prior to the Firm Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto and no order directed at any document incorporated by reference in the Registration Statement, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto has been issued, and no proceedings for that purpose have been instituted or threatened or, to the best of the Company's knowledge, are contemplated by the Commission; and

(iii) subsequent to the respective dates as of which information is given in the Registration Statement and each of the Prospectus and any Integrated Prospectus, neither the Company nor any of its subsidiaries have sustained any material loss or interference with their respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding, and there has not been any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or otherwise), management, business prospects, net worth or results of operations of the Company or any of its subsidiaries, except in each case as described in or contemplated by the Prospectus and any Integrated Prospectus.

(h) The Representative shall have received a certificate from each Group 1 Selling Securityholder, signed by such Selling Securityholder, dated the Firm Closing Date, to the effect that:

- (i) the representations and warranties of such Group 1 Selling Securityholder in this Agreement are true and correct as if made on and as of the Firm Closing Date;
- (ii) the Registration Statement, as amended as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, and each of the Prospectus and any Integrated Prospectus, as amended or supplemented as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and
- (iii) such Group 1 Selling Securityholder has performed all covenants and agreements on its part to be performed or satisfied at or prior to the Firm Closing Date.

(i) The Representative shall have received a certificate from each Group 2 Selling Securityholder, signed by such Group 2 Selling Securityholder, dated the Firm Closing Date, to the effect that:

- (i) the representations and warranties of such Group 2 Selling Securityholder in this Agreement are true and correct as if made on and as of the Firm Closing Date;
- (ii) to the extent that any statements or omissions are made in the Registration Statement, the Prospectus and any Integrated Prospectus in reliance upon and in conformity with written information furnished to the Company by the Group 2 Selling Securityholder specifically for use therein, the Registration Statement, as amended as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading, and each of the Prospectus and any Integrated Prospectus, as amended or supplemented as of the Firm Closing Date, does not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and

(iii) such Group 2 Selling Securityholder has performed all covenants and agreements on its part to be performed or satisfied at or prior to the Firm Closing Date.

(j) The Representative shall have received from each person who is a director or executive officer of the Company an agreement to the effect that such person will not, directly or indirectly, without the prior written consent of Prudential Securities Incorporated, on behalf of the Underwriters, offer, sell, offer to sell, pledge, contract to sell, grant any option to purchase or otherwise sell or dispose (or announce any offer, sale, offer of sale, pledge, contract of sale grant of an option to purchase or other sale or disposition) of any shares of Common Stock or any securities convertible into, or exchangeable or exercisable for, shares of Common Stock for a period of 120 days after the date of this Agreement.

(k) On or before the Firm Closing Date, the Representative and counsel for the Underwriters shall have received such further certificates, documents or other information as they may have reasonably requested from the Company.

(l) Prior to the commencement of the offering of the Securities, the Securities shall have been approved for listing on the New York Stock Exchange, subject to official notice of issuance.

All opinions, certificates, letters and documents delivered pursuant to this Agreement will comply with the provisions hereof only if they are reasonably satisfactory in all material respects to the Representative and counsel for the Underwriters. The Company shall furnish to the Representative such conformed copies of such opinions, certificates, letters and documents in such quantities as the Representative and counsel for the Underwriters shall reasonably request.

The respective obligations of the several Underwriters to purchase and pay for any Option Securities shall be subject, in their discretion, to each of the foregoing conditions to purchase the Firm Securities, except that all references to the Firm Securities and the Firm Closing Date shall be deemed to refer to such Option Securities and the related Option Closing Date, respectively.

8. INDEMNIFICATION AND CONTRIBUTION

(a) The Company and each Group 1 Selling Securityholder jointly and severally agree to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any losses, claims, damages or liabilities, joint or several, to which such Underwriter or such controlling person may become subject under the Act, the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon:

- (i) any untrue statement or alleged untrue statement made by the Company or such Group 1 Selling Securityholder in Section 2 of this Agreement,
- (ii) any untrue statement or alleged untrue statement of any material fact contained in (A) the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto or (B) any application or other document, or any amendment or supplement thereto, executed by the Company or such Group 1 Selling Securityholder or based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Securities under the securities or blue sky laws thereof or filed with the Commission or any securities association or securities exchange (each an "Application"),
- (iii) the omission or alleged omission to state in the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto, or any Application a material fact required to be stated therein or necessary to make the statements therein not misleading, or
- (iv) any untrue statement or alleged untrue statement of any material fact contained in any audio or visual materials used in connection with the marketing of the Securities, including without limitation, slides, videos, films, tape recordings,

and will reimburse, as incurred, each Underwriter and each such controlling person for any legal or other expenses reasonably incurred by such Underwriter or such controlling person in connection with investigating, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action; PROVIDED, HOWEVER, that the Company and such Group 1 Selling Securityholder will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement or any amendment thereto, any Preliminary Prospectus, the Prospectus, any Integrated Prospectus or any amendment or supplement thereto, or any Application in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representative specifically for use therein; and PROVIDED, FURTHER, that the Company and such Group 1 Selling Securityholder will not be liable to any Underwriter or any person controlling such Underwriter with respect to any such untrue statement or omission made in any

Preliminary Prospectus that is corrected in the Prospectus or any Integrated Prospectus (or any amendment or supplement thereto) if the person asserting any such loss, claim, damage or liability purchased Securities from such Underwriter but was not sent or given a copy of the Prospectus or any Integrated Prospectus (as amended or supplemented), other than the documents incorporated by reference therein, at or prior to the written confirmation of the sale of such Securities to such person in any case where such delivery of the Prospectus or any Integrated Prospectus (as amended or supplemented) is required by the Act, unless such failure to deliver the Prospectus (as amended or supplemented) was a result of noncompliance by the Company with Section 5(a)(iv) or 5(a)(v) of this Agreement. This indemnity agreement will be in addition to any liability which the Company and such Group 1 Selling Securityholder may otherwise have. Neither the Company nor any Group 1 Selling Securityholder will, without the prior written consent of the Underwriter or Underwriters purchasing, in the aggregate, more than fifty percent (50%) of the Securities, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not any such Underwriter or any person who controls any such Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act is a party to such claim, action, suit or proceeding), unless such settlement, compromise or consent includes an unconditional release of all of the Underwriters and such controlling persons from all liability arising out of such claim, action, suit or proceeding.

(b) The Group 2 Selling Securityholder agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, each Underwriter and each person who controls the Company or any Underwriter within the meaning of Section 15 of the Act against any such losses, claims, damages or liabilities to which the Company, any such director, officer, such Underwriter or any such controlling person may become subject under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto, or any Application or (ii) the omission or the alleged omission to state therein a material fact required to be stated in the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto, or any Application or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by the Group 2 Selling Securityholder for use therein; PROVIDED, HOWEVER, that the Group 2 Selling Securityholder will not be liable to any Underwriter or any person controlling such Underwriter with respect to any such untrue statement or omission

made in any Preliminary Prospectus that is corrected in the Prospectus (or any amendment or supplement thereto) if the person asserting any such loss, claim, damage or liability purchased Securities from such Underwriter but was not sent or given a copy of the Prospectus or any Integrated Prospectus (as amended or supplemented) at or prior to the written confirmation of the sale of such Securities to such person in any case where such delivery of the Prospectus (as amended or supplemented) is required by the Act, unless such failure to deliver the Prospectus (as amended or supplemented) was a result of noncompliance by the Company with Section 5(a)(iv) or 5 (a)(v) of this Agreement; and subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any legal or other expenses reasonably incurred by the Company, any such director, officer, such Underwriter or any such controlling person in connection with investigating or defending any such loss, claim, damage, liability or any action in respect thereof. This indemnity agreement will be in addition to any liability which the Group 2 Selling Securityholder may otherwise have. The Group 2 Selling Securityholder will not, without the prior written consent of the Underwriters purchasing greater than fifty percent of the Securities, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not such Underwriter or any person who controls such Underwriter within the meaning of Section 15 of the Act is a party to such claim, action, suit or proceeding), unless such settlement, compromise or consent includes an unconditional release of the Underwriters and each such controlling person from all liability arising out of such claim, action, suit or proceeding.

(c) Each Underwriter, severally and not jointly, will indemnify and hold harmless the Company, each of its directors, each of its officers who signed the Registration Statement, each Selling Securityholder and each person, if any, who controls the Company or such Selling Securityholder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any losses, claims, damages or liabilities to which the Company, any such director, officer of the Company, any Selling Securityholder or any such controlling person may become subject under the Act, the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement or any amendment thereto, any Preliminary Prospectus, or the Prospectus or any Integrated Prospectus or any amendment or supplement thereto, or any Application or (ii) the omission or the alleged omission to state therein a material fact required to be stated in the Registration Statement or any amendment thereto, any Preliminary Prospectus, the Prospectus or any Integrated Prospectus or any amendment or supplement thereto, or any Application or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written

information furnished to the Company by such Underwriter through the Representative specifically for use therein; and, subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any legal or other expenses reasonably incurred by the Company, any such director, officer or controlling person or such Selling Securityholder in connection with investigating or defending any such loss, claim, damage, liability or any action in respect thereof. This indemnity agreement will be in addition to any liability which such Underwriter may otherwise have.

(d) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section 8. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party; PROVIDED, HOWEVER, that if the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be one or more legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, the indemnifying party shall not have the right to direct the defense of such action on behalf of such indemnified party or parties and such indemnified party or parties shall have the right to select separate counsel to defend such action on behalf of such indemnified party or parties. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this Section 8 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the next preceding sentence (it being understood, however, that in connection with such action the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, designated by the Representative in the case of paragraph (a) or (b) of this Section 8, representing the indemnified parties under such paragraph (a) or (b) who are parties to such action or actions) or (ii) the indemnifying party has authorized the employment of counsel for the indemnified party at the expense of the indemnifying party. After such notice from the indemnifying party to such indemnified party, the indemnifying party will not be liable for the costs and expenses

of any settlement of such action effected by such indemnified party without the consent of the indemnifying party, unless such indemnified party waived its rights under this Section 8 in which case the indemnified party may effect such a settlement without such consent. It is agreed that any controversy arising out of the operation of the interim reimbursement arrangements set forth in Sections 8(a), 8(b) and 8(c) hereof, including the amounts of any requested reimbursement payments and the method of determining such amounts, shall be settled by arbitration conducted under the provisions of the Constitution and Rules of the Board of Governors of the New York Stock Exchange, Inc. or pursuant to the Code of Arbitration Procedure of the NASD. Any such arbitration must be commenced by service of a written demand for arbitration or written notice of intention to arbitrate, therein electing the arbitration tribunal. In the event that the party demanding arbitration does not make such designation of an arbitration tribunal in such demand or notice, then the party responding to said demand or notice is authorized to do so. Such an arbitration would be limited to the operation of the interim reimbursement provisions contained in Sections 8(a), 8(b) and 8(c) hereof and would not resolve the ultimate propriety or enforceability of the obligation to reimburse expenses which is created by the provisions of such Sections 8(a), 8(b) and 8(c) hereof.

(e) In circumstances in which the indemnity agreement provided for in the preceding paragraphs of this Section 8 is unavailable or insufficient, for any reason, to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof), each indemnifying party, in order to provide for just and equitable contribution, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect (i) the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party or parties on the other from the offering of the Securities or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, not only such relative benefits but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party or parties on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand, such Selling Securityholder on another hand and the Underwriters on the other hand shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting expenses) received by the Company and such Selling Securityholder bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault of the parties shall be determined by referenced to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company, such Selling Securityholder or the Underwriters, the parties' relative intents, knowledge, access to information and opportunity to correct or prevent such

statement or omission, and any other equitable considerations appropriate in the circumstances. The Company, each Selling Securityholder and the Underwriters agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take into account the equitable considerations referred to above in this paragraph (e). Notwithstanding any other provision of this paragraph (e), no Underwriter shall be obligated to make contributions hereunder that in the aggregate exceed the total public offering price of the Securities purchased by such Underwriter under this Agreement, less the aggregate amount of any damages that such Underwriter has otherwise been required to pay in respect of the same or any substantially similar claim, and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations to contribute hereunder are several in proportion to their respective underwriting obligations and not joint, and contributions among Underwriters shall be governed by the provisions of the Prudential Securities Incorporated Master Agreement Among Underwriters. For purposes of this paragraph (e), each person, if any, who controls an Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as such Underwriter, each director of the Company, each officer of the Company who signed the Registration Statement and each person, if any, who controls the Company or such Selling Securityholder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company and such Selling Securityholder.

(f) The liability of each Selling Securityholder under this Section 8 shall not exceed an amount equal to the net proceeds of the Securities sold by such Selling Securityholder to the Underwriters.

9. DEFAULT OF UNDERWRITERS. If one or more Underwriters default in their obligations to purchase Firm Securities or Option Securities hereunder and the aggregate number of such Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase is ten percent or less of the aggregate number of Firm Securities or Option Securities to be purchased by all of the Underwriters at such time hereunder, the other Underwriters may make arrangements satisfactory to the Representative for the purchase of such Securities by other persons (who may include one or more of the non-defaulting Underwriters, including the Representative), but if no such arrangements are made by the Firm Closing Date or the related Option Closing Date, as the case may be, the other Underwriters shall be obligated severally in proportion to their respective commitments hereunder to purchase the Firm Securities or Option Securities that such defaulting Underwriter or Underwriters agreed but failed to purchase. If one or more Underwriters so default with respect to an aggregate number of Securities that is more than ten percent of the aggregate of Firm Securities or Option Securities, as the case may be, to

be purchased by all of the Underwriters at such time hereunder, and if arrangements satisfactory to the Representative are not made within 36 hours after such default for the purchase by other persons (who may include on or more of the non-defaulting Underwriters, including the Representative) of the Securities with respect to which such default occurs, this Agreement will terminate without liability on the part of any non-defaulting Underwriter or the Company other than as provided in Section 10 hereof. In the event of any default by one or more Underwriters as described in this Section 9, the Representative shall have the right to postpone the Firm Closing Date or the Option Closing Date, as the case may be, established as provided in Section 3 hereof for not more than seven business days in order that any necessary changes may be made in the arrangements or documents for the purchase and delivery of the Firm Securities or Option Securities, as the case may be. As used in this Agreement, the term "Underwriter" includes any person substituted for an Underwriter under this Section 9. Nothing herein shall relieve any defaulting Underwriter from liability for its default.

10. SURVIVAL. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company, its officers, the Selling Securityholders and the several Underwriters set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Company, any of its officers or directors, any Selling Securityholder, any Underwriter or any controlling person referred to in Section 8 hereof and (ii) delivery of any payment for the Securities. The respective agreements, covenants, indemnities and other statements set forth in Sections 6 and 8 hereof shall remain in full force and effect, regardless of any termination or cancellation of this Agreement.

11. TERMINATION.

(a) This Agreement may be terminated with respect to the Firm Securities or any Option Securities in the sole discretion of the Representative by notice to the Company and the Selling Securityholders given prior to the Firm Closing Date or the related Option Closing Date, respectively, in the event that the Company shall have failed, refused or been unable to perform all obligations and satisfy all conditions on its part to be performed or satisfied hereunder at or prior thereto or, if at or prior to the Firm Closing Date or such Option Closing Date, respectively,

(i) the Company or any of its subsidiaries shall have, in the sole judgment of the Representative, sustained any material loss or interference with their respective businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any labor dispute or any legal or governmental proceeding or there shall have been any material adverse change, or any development involving a prospective material adverse change (including without limitation a change

in management or control of the Company), in the condition (financial or otherwise), business prospects, net worth or results of operations of the Company and its subsidiaries, except in each case as described in or contemplated by the Prospectus and any Integrated Prospectus (exclusive of any amendment or supplement thereto);

- (ii) trading in the Common Stock or the Class B Common Stock shall have been suspended by the Commission or the New York Stock Exchange or American Stock Exchange, as the case may be, or trading in securities generally on the New York or American Stock Exchanges shall have been suspended or minimum or maximum prices shall have been established on either such exchange;
- (iii) a banking moratorium shall have been declared by New York or United States authorities; or
- (iv) there shall have been (A) an outbreak or escalation of hostilities between the United States and any foreign power, (B) an outbreak or escalation of any other insurrection or armed conflict involving the United States or (C) any other calamity or crisis or material adverse change in general economic, political or financial conditions having an effect on the U.S. financial markets that, in the sole judgment of the Representative, makes it impractical or inadvisable to proceed with the public offering or the delivery of the Securities as contemplated by the Registration Statement, as amended as of the date hereof.

(b) Termination of this Agreement pursuant to this Section 11 shall be without liability of any party to any other party except as provided in Section 10 hereof.

12. INFORMATION SUPPLIED BY UNDERWRITERS. The statements set forth in the last paragraph on the front cover page and in the first and third paragraphs under the heading "Underwriting" in any Preliminary Prospectus, the Prospectus or any Integrated Prospectus (to the extent such statements relate to the Underwriters) constitute the only information furnished by any Underwriter through the Representative to the Company for the purposes of Sections 2(a)(ii) and 8 hereof. The Underwriters confirm that such statements (to such extent) are correct.

13. NOTICES. All communications hereunder shall be in writing and, if sent to any of the Underwriters, shall be delivered or sent by mail, telex or facsimile transmission and

confirmed in writing to Prudential Securities Incorporated, One New York Plaza, New York, New York 10292, telecopy number (212) 778-7621, Attention: Equity Transactions Group; and if sent to the Company, shall be delivered or sent by mail, telex or facsimile transmission and confirmed in writing to the Company at 2665 South Bayshore Drive, Coconut Grove, Florida 33133, telecopy number (305) 858-4492, Attention: President.

14. SUCCESSORS. This Agreement shall inure to the benefit of and shall be binding upon the several Underwriters, the Company, each Selling Securityholder and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that (i) the indemnities of the Company and the Selling Securityholders contained in Section 8 of this Agreement shall also be for the benefit of any person or persons who control any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and (ii) the indemnities of the Underwriters contained in Section 8 of this Agreement shall also be for the benefit of the directors of the Company, the officers of the Company who have signed the Registration Statement and any person or persons who control the Company or such Selling Securityholder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act. No purchaser of Securities from any Underwriter shall be deemed a successor because of such purchase.

15. APPLICABLE LAW. The validity and interpretation of this Agreement, and the terms and conditions set forth herein, shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to any provisions relating to conflicts of laws.

16. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute an agreement binding the Company, each of the Selling Securityholders and each of the several Underwriters.

Very truly yours,

WATSCO, INC.

By: _____

Name:
Title:

THE SELLING SECURITYHOLDERS
[IDENTIFY]

By: _____

Name:
Title: Attorney-in-Fact

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

PRUDENTIAL SECURITIES INCORPORATED

By: _____

Name: Jean-Claude Canfin
Title: Director

SCHEDULE 1
UNDERWRITERS

UNDERWRITER

NUMBER OF FIRM
SECURITIES TO
BE PURCHASED

Prudential Securities Incorporated.....

[Insert names of other Underwriters]

Total.....

1,400,000
=====

SCHEDULE 2

		NUMBER OF FIRM SECURITIES TO BE SOLD -----
The Company.....		1,000,000
Group 1 Selling Securityholders:.....		105,720
Alna Capital Associates.....	25,720	
Albert H. Nahmad.....	50,000	
Ronald P. Newman.....	30,000	
.....	-----	
.....	105,720	
Group 2 Selling Securityholders:.....		294,280
Oliver M. Butler and Marjorie E. Butler Declaration of Trust..	286,405	
O.M. Butler.....	7,875	
.....	-----	
.....	294,280	
Total.....		1,400,000 =====

SCHEDULE 3
SUBSIDIARIES

NAME -----	JURISDICTION OF INCORPORATION -----
---------------	--

GREENBERG
ATTORNEYS AT LAW
TRAURIG

January 22, 1996

Watsco, Inc.
2665 South Bayshore Drive
Suite 901
Miami, Florida 33133

Re: OFFERING OF COMMON STOCK OF WATSCO, INC.

Gentlemen:

On the date hereof, Watsco, Inc., a Florida corporation (the "Company"), filed with the Securities and Exchange Commission a Registration Statement on Form S-3 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Act"). Such Registration Statement relates to the sale by the Company and certain selling shareholders of up to 1,610,000 shares of the Company's Common Stock, par value \$.50 per share (the "Shares"). We have acted as counsel to the Company in connection with the preparation and filing of the Registration Statement.

In connection therewith, we have examined and relied upon the original or a copy, certified to our satisfaction, of (i) the Amended and Restated Articles of Incorporation and the By-laws of the Company; (ii) resolutions of the Board of Directors of the Company authorizing the offering and the issuance of the shares and related matters; (iii) the

GREENBERG TRAURIG HOFFMAN LIPOFF ROSEN & QUENTEL, P.A.
1221 BRICKELL AVENUE MIAMI, FLORIDA 33131 305-579-0500 FAX 305-579-0717
MIAMI FORT LAUDERDALE WEST PALM BEACH TALLAHASSEE
NEW YORK WASHINGTON, D.C.

Watsco, Inc.
January 22, 1996
Page 2

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Registration Statement and the exhibits thereto; and (iv) such other documents and instruments as we have deemed necessary for the expression of the opinions herein contained. In making the foregoing examinations, we have assumed the genuineness of all signatures and the authenticity of all documents submitted to us as originals, and the conformity to original documents of all documents submitted to us as certified or photostatic copies. As to various questions of fact material to this opinion, we have relied, to the extent we deem reasonably appropriate, upon representations or certificates of officers or directors of the Company and upon documents, records and instruments furnished to us by the Company, without independently checking or verifying the accuracy of such documents, records, and instruments.

Based upon the foregoing examination, we are of the opinion that the Shares have been duly and validly authorized and, when issued and delivered in accordance with the Underwriting Agreement filed as Exhibit 1.1 to the Registration Statement, will be validly issued, fully paid and nonassessable.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of our name under the caption "Legal Matters" in the Prospectus forming a part of the Registration Statement. In giving such consent, we do not admit that we come within the category or persons whose consent is required under Section 7 of the Act or the rules and regulations of the Commission thereunder.

Sincerely,

GREENBERG, TRAURIG, HOFFMAN,
LIPOFF, ROSEN & QUENTEL, P.A.

By: _____

BY AND BETWEEN
CAC ACQUISITION, INC.
- AND -
NATIONSBANK OF FLORIDA, N.A.

DATED AS OF OCTOBER 26, 1995

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REVOLVING CREDIT AGREEMENT

THIS REVOLVING CREDIT AGREEMENT (the "Agreement") is made and entered into as of the 26th day of October, 1995, by and between:

CAC ACQUISITION, INC.,

a North Carolina corporation, which corporation shall immediately change its name to CENTRAL AIR CONDITIONING DISTRIBUTORS, INC. upon the acquisition described in Section 5.15 herein

-and-

NATIONSBANK OF FLORIDA, N.A.,
(hereinafter the "Lender")

R E C I T A L S

A. The Borrower has requested Lender to provide a Revolving Credit (as said term is defined herein) to the Borrower, as set forth herein.

B. The Lender is willing to provide the Revolving Credit to the Borrower for the purposes, upon the terms, and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and promises herein contained, and for other good and valuable consideration, it is agreed as follows:

SECTION 1
DEFINITIONS

1.1 DEFINED TERMS. As used in this Agreement, the following terms shall have the meanings set forth below:

"ADVANCE": an Advance to the Borrower pursuant to Section 2.2 herein.

"AFFILIATES": any Person that directly or indirectly through one or more intermediaries controls or are controlled by or are under common control with Borrower.

"AGREEMENT": this Revolving Credit Agreement, as the same may be amended, supplemented, modified or extended from time to time.

"BUSINESS DAY": a day other than a Saturday, Sunday or other day on which commercial banks in the States of Florida and North Carolina are authorized or required by law to close.

"CLOSING DATE": as of October 26, 1995.

"CODE": the Internal Revenue Code of 1986, as amended, supplemented or modified from time to time.

"DEFAULT": any of the events specified in Section 10 herein, whether or not any requirement for the giving of notice, the lapse of time, or both, has been satisfied, provided such Default has not been waived in writing by the Lender.

"DEFAULT RATE": an interest rate per annum equal to the lesser of (i) two (2.0%) percent in excess of the Prime Rate; or (ii) the maximum rate of interest permitted by law.

"ERISA": the Employee Retirement Income Security Act of 1974 and all related provisions of the Code, as the same may be amended, supplemented or modified from time to time, together with all applicable rulings and regulations issued under the provisions of either of them.

"EVENT OF DEFAULT": any of the events specified in Section 10 herein, provided that any requirement for the giving of notice, the lapse of time, or both, or any other conditions, has been satisfied.

"FUNDED DEBT": Indebtedness of Borrower other than trade payables, accrued expenses incurred in the ordinary course of business, deferred tax obligations and the Subordinated Indebtedness.

"GUARANTOR": Watsco, Inc., a Florida corporation.

"INDEBTEDNESS": at any date, any obligation for money borrowed or other monetary obligations incurred, whether or not evidenced by notes, bonds, debentures or other similar instruments, or any obligation under conditional sale or other title retention agreements or capitalized leases or any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any guaranty of any of the foregoing.

"LIABILITIES": at any date, all liabilities, direct and indirect, contingent and absolute, computed in accordance

with generally accepted accounting principles applied on a consistent basis.

"LIBOR RATE": the rate at which United States Dollar deposits are offered in the London Interbank Market, fully adjusted for any reserve requirements established from time to time by the Board of Governors of the Federal Reserve System.

"LIEN": any mortgage, pledge, hypothecation, assignment, security interest, lien, charge or encumbrance, or preference, priority or other security agreement or arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, and the filing of, or agreement to give, any financing statement under the Uniform Commercial Code or comparable law or any jurisdiction).

"LINE AGREEMENT": that certain Amendment to Line of Credit Agreement by and between the Lender and Guarantor dated as of April 30, 1994; and that certain Second Amendment to Line of Credit Agreement by and between the Lender and Guarantor dated as of June 23, 1995.

"LOAN DOCUMENTS": this Agreement, the Note, the Stock Pledge Agreement, the Financing Statements, the Guaranty, the Solvency Certificate and all documents, instruments and agreements executed in connection herewith or therewith.

"MATURITY DATE": December 31, 1998.

"NET WORTH": (A) the aggregate amount of assets shown on the balance sheet of Borrower at any particular date less (B) all Liabilities of Borrower at such date; all as determined in accordance with generally accepted accounting principals consistently applied.

"NOTE": as said term is defined in Section 2.4 herein.

"PERSON": an individual, sole proprietorship, partnership, corporation, business trust, joint stock company, trust, unincorporated association, joint venture or other entity or a governmental or any agency or political subdivision thereof.

"PLAN": any plan of a type described in Section 4021(a) of ERISA which may be established (or maintained by the Borrower in respect of which the Borrower is an "employer" as defined in Section 3(5) of ERISA.

"PRIME RATE": the index rate of interest (but not necessarily the best or lowest rate charged borrowing customers of the Lender) announced by the Lender from time to time as its

prime rate. Said rate is a reference rate for the information and use of the Lender in establishing the actual rates to be charged to its borrowers.

"REPORTABLE EVENT": any of the events set forth in Section 4034(b) of ERISA or the regulations thereunder.

"REVOLVING CREDIT": as said term is defined in Section 2.1 herein.

"RHEEM": Rheem Manufacturing Company, a Delaware corporation.

"RHEEM AGREEMENT": the distributorship agreement by and between Rheem and Borrower, together with all amendments thereto, which agreement shall be in form and content acceptable to Lender.

"STANDBY L/C AGREEMENT": the Lender's current form of Application and Agreement for Standby Letter of Credit attached hereto and made a part hereof as Exhibit "A".

"SUBORDINATED INDEBTEDNESS": the subordinated indebtedness of Borrower to Guarantor in the principal amount of ONE MILLION TWO HUNDRED THOUSAND DOLLARS (\$1,200,000.00) under that certain Subordination Agreement by and among Lender, Borrower and Guarantor of even date herewith (the "Subordination Agreement").

"TANGIBLE NET WORTH": the aggregate amount of assets shown on the balance sheet of Guarantor on any particular date (but excluding from such assets, capitalized organizational and development costs, capitalized interest, debt discount and expense, goodwill, patents and trademarks, copyrights, franchises, licenses, amounts due from officers, employees, directors, stockholders and affiliates, and other assets as are properly classified as intangible assets under generally accepted accounting principles), less Liabilities of Guarantor at such date with the exception of those certain ten percent (10%) Convertible Subordinated Debentures due 1996 under that certain Indenture dated September 12, 1986, all computed in accordance with generally accepted accounting principles applied on a consistent basis.

"TERMINATION DATE": the earlier of the Maturity Date or any other date beyond which the Lender shall have no obligation hereunder to make Advances, whether as a result of maturity, Default or otherwise.

1.2 OTHER DEFINITIONAL PROVISIONS OTHER DEFINITIONAL PROVISIONS.
(a) all terms defined in or incorporated into this Agreement shall have the defined

meanings when used herein or in the Loan Documents or any certificate or other instrument made or delivered pursuant hereto unless the context otherwise requires; (b) each accounting term used but not defined herein shall have the meaning given to it under generally accepted accounting principles.

SECTION 2
AMOUNT AND TERMS OF REVOLVING CREDIT

2.1 REVOLVING CREDIT.

(a) The Lender agrees, upon the terms and subject to the conditions hereof, to extend a revolving credit facility to the Borrower (the "Revolving Credit"), in an aggregate principal amount at any one time outstanding not to exceed EIGHT MILLION DOLLARS (\$8,000,000.00), to be used by the Borrower in order to obtain loans and advances from the Lender ("Advances") pursuant to the terms and provisions set forth in Section 2.2 herein and for the issuance of two (2) standby letters of credit in the maximum aggregate face amount of FOUR MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS (\$4,250,000.00) (the "Standby L/C's"). The aggregate principal amount of all Advances and the face amount of the Standby L/C's outstanding at any one time under the Revolving Credit shall not at any time exceed EIGHT MILLION DOLLARS (\$8,000,000.00). The Advances to the Borrower and issuance of the Standby L/C's on behalf of Borrower shall at all times be conditioned upon there existing no Default or Event of Default hereunder, and the Lender shall have no obligation to make Advances or issue the Standby L/C's at any time that a Default or Event of Default exists hereunder. Until the Termination Date, the Borrower may use the Revolving Credit by borrowing, repaying in whole or in part, and reborrowing under the Revolving Credit, all in accordance with this Agreement; provided, however, at the time of each Advance or issuance of the Standby L/C's under the Revolving Credit, the Borrower shall not be in Default hereunder, or in default under any other agreement with or obligation to the Lender.

2.2 ADVANCES UNDER REVOLVING CREDIT.

(a) Subject to the terms and conditions hereof, from time to time the Borrower may obtain Advances under the Revolving Credit in an aggregate principal amount at any one time outstanding not to exceed EIGHT MILLION DOLLARS (\$8,000,000.00). The Borrower may use Advances to pay or prepay any Advances outstanding under such facility in whole or in part, subject to the terms and conditions of this Agreement; provided that at the time of each such Advance, the Borrower shall not be in Default hereunder, or in default under any other agreement with or obligation to the Lender.

(b) Interest on the Advances outstanding from time to time under the Revolving Credit shall accrue at an annual rate to be selected by Borrower equal to either: (i) a fixed rate equal to seventy-five (75) basis points in excess of the LIBOR Rate for periods of thirty (30) days, sixty (60) days, ninety (90) days, one hundred twenty (120) days, one hundred fifty (150) days, one hundred eighty (180) days or one (1) year, but in any event not to exceed the Maturity Date (the "LIBOR Option"); or (ii) a fluctuating rate equal to the Prime Rate minus one and five-eighths of one percent (1 5/8%) (the "Prime Option"). All interest shall be computed on a daily basis based on a 360-day year. All interest accrued on Advances under the Revolving Credit shall be due and payable quarterly on the fifth (5th) day of each month. If such day is not a Business Day, the Business Day next succeeding such date shall be the date on which interest shall be due and payable.

(c) The Borrower may request Advances on any Business Day, provided that the Borrower shall give the Lender irrevocable telephonic notice confirmed in writing (via facsimile or hand delivery) on Lender's usual and customary form, substantially in the form attached hereto as Exhibit "B", received by the Lender prior to 12:00 noon (Miami, Florida time) two (2) Business Days prior to the borrowing date in the event an Advance subject to the LIBOR Option is selected, specifying the amount to be borrowed and the borrowing date. Upon fulfillment of the applicable conditions set forth herein, the Lender shall make such funds available to the Borrower on the borrowing date by crediting same to the Borrower's demand deposit account with Lender. Upon each crediting of a sum to the account of the Borrower, the Borrower shall have effected an Advance from the Lender under the Revolving Credit and shall be indebted to the Lender for the amount thereof, plus interest thereon, in accordance with the terms and conditions hereof. Lender shall incur no liability to Borrower in acting upon any advice referred to above, whether oral or written, which Lender believes in good faith to have been given by an officer or other person authorized to borrow on behalf of Borrower. Further, all documents required to be executed in conjunction with Advances under this Agreement may be signed by any of the officers or other persons duly authorized by the general borrowing resolution of Borrower, as such resolution may be amended from time to time.

2.3 LIBOR OPTION. On the Closing Date, or at the expiration of any Interest Period (as hereinafter defined), if Borrower selects the LIBOR Option, it shall simultaneously advise Lender whether such selection is for a thirty (30) day, sixty (60) day, ninety (90) day, one hundred twenty (120) day, one hundred fifty (150) day, one hundred eighty (180) day or a one (1) year period and the applicable interest rate shall remain

effective for the period selected (an "Interest Period"). If Borrower elects to renew a LIBOR Option Advance, two (2) Business Days prior to the expiration of any Interest Period, Borrower shall give telephone instructions to Lender (confirmed in writing), of its election to renew the LIBOR Option Advance for a subsequent Interest Period and failure to give such instructions shall conclusively be presumed to be a selection by Borrower of the Prime Option. If Borrower has selected the Prime Option with respect to any Advance, it may elect, at any time, to change the interest rate to the LIBOR Option, by telephonic notice (confirmed in writing) no later than two (2) Business Days prior to the date the LIBOR Option selection is to become effective. Borrower may select the LIBOR Option to be in effect with respect to all or specified portions of the Revolving Credit, provided, however, Advances subject to the LIBOR Option shall be in minimum increments of FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) and no more than three (3) Advances shall be subject to the LIBOR Option at any one time.

In the event Borrower has selected the LIBOR Option with respect to the initial funding or any Interest Period, such selection shall be subject to the following terms and conditions:

(1) If, at any time, Lender shall have determined (which determination shall be final and conclusive and binding on the parties hereto provided Lender has made such determination in good faith) that, as a result of any change in any applicable law or governmental (federal, state or local, domestic or foreign) rule, regulation or order or any interpretation thereof (including without limitation, the introduction of any new or revised law or governmental rule, regulation or order) or its compliance with any directive or request of any central bank or other governmental authority (whether or not having the force of law), the cost to Lender of making, funding or maintaining the portion of the Revolving Credit which then is subject to one or more LIBOR Options (the "LIBOR Loan") has increased from its cost at the time of the commencement of the relevant Interest Period, then Lender shall promptly so notify Borrower thereof by telephone (confirmed in writing) and Borrower shall pay to Lender within thirty (30) days an amount sufficient to indemnify Lender against such increased cost.

(2) In the event that, at any time, Lender shall have reasonably determined (which determination shall be final and conclusive and binding upon the parties hereto) that it has become unlawful for

Lender to obtain funds in the relevant offshore interbank markets in order to make or maintain its LIBOR Loan, Lender shall promptly give notice to Borrower by telephone (confirmed in writing) of that determination, whereupon the Prime Rate Option, or a certificate of deposit based pricing option (the "CD Option") to be made available to Borrower by Lender upon such determination, shall be in effect for the duration of the pending Interest Periods with respect to the LIBOR Loan.

(3) If, on or before the date of commencement of any Interest Period, Lender shall have determined (which determination shall be final, conclusive and binding on all the parties hereto) that (i) deposits in United States dollars in amounts equal to the portion of the Revolving Credit to be subject to the LIBOR Option for that Interest Period are not being offered to Lender in the relevant markets, or (ii) by reason of changes affecting the relevant markets, the LIBOR Option to be in effect for that period will not adequately and fairly reflect the cost to Lender of maintaining the LIBOR Loan for that period, Lender shall promptly so notify Borrower by telephone (confirmed in writing) whereupon the Prime Option, or CD Option to be made available to Borrower by Lender upon such determination, shall be in effect for that period with respect to the LIBOR Loan;

(4) Borrower shall compensate Lender within thirty (30) days of the written request of Lender (which shall set forth in reasonable detail the basis for requesting such compensation) for all reasonable losses, expenses and liabilities (including without limitation, any interest paid by Lender to lenders of funds borrowed by it to carry its LIBOR Loan during any Interest Period and for any loss sustained by Lender in connection with the re-employment of such funds) which Lender may sustain: (i) as a result of Borrower's failure to borrow funds which had been committed by Lender in advance, at Borrower's request; or (ii) as a result of Borrower's prepayment of any outstanding LIBOR Loan.

In the event Lender shall have determined (which determination shall be binding and conclusive on Borrower) that, by reason of circumstances affecting the relevant markets for the LIBOR Option, adequate and reasonable means do not exist for

ascertaining the LIBOR Option with respect to (a) the continuation of the LIBOR Option then in existence pursuant to a prior request of Borrower, or (b) any request by Borrower to change the Prime Option then in existence, to the LIBOR Option, Lender shall promptly notify Borrower by telephone (confirmed in writing) of such determination. Upon receipt of such notice, the Prime Option, or CD Option to be made available to Borrower by Lender upon such determination, shall be in effect until Lender notifies Borrower that it may resume selection of the LIBOR Option.

In any case where Borrower may select an interest rate option and fails or neglects to do so, then the Prime Option shall apply.

2.4 NOTE.

(a) All obligations of the Borrower to the Lender under the Revolving Credit shall be evidenced by a master revolving promissory note in form and content acceptable to Lender, executed by Borrower payable to the order of Lender dated of even date with this Agreement in the principal amount of EIGHT MILLION DOLLARS (\$8,000,000.00) (the "Note").

(b) The Note shall be deemed to reflect the aggregate unpaid principal amount of all obligations created under the Revolving Credit, including the aggregate outstanding principal balance of all Advances made pursuant to Section 2.2 hereof, whether or not the face amount of the Note is in excess of the amount actually outstanding from time to time, and whether or not the indebtedness outstanding thereunder or any portion thereof is from time to time repaid and reborrowed.

2.5 INTEREST ON THE NOTE.

(a) Except as otherwise provided in this Section 2.5, the aggregate principal balance of the Advances outstanding from time to time shall bear interest and shall be payable as set forth in Section 2.2 hereof.

(b) If the Borrower shall Default in the payment of the principal of, or interest on, any Advances made pursuant to Section 2.2 hereof, then in any such event the Borrower shall, on demand, pay interest on the amount in Default from the date of such Default up to the date of actual payment, at the Default Rate.

(c) Interest hereunder shall be charged only on the sums outstanding and shall be computed from the date such indebtedness is incurred to the date of repayment.

2.6 MATURITY OF REVOLVING CREDIT. The outstanding principal balance on the Revolving Credit, together with all accrued and unpaid interest thereon, shall be due and payable on the earlier of the Revolving Credit Maturity Date or the Termination Date.

2.7 ACCESS TO REVOLVING CREDIT. Until the Lender receives further written notice from the Borrower, only W. Stokes Huff, Jr., Mike Huff and Ronald P. Newman shall be the authorized signatories of the Borrower, authorized to request Advances.

2.8 INTEREST. All interest hereunder shall be computed on a daily basis, based on a 360-day year. In no event shall interest be due at a rate in excess of the highest lawful rate in effect from time to time. It is not the intention of the parties hereto to make any agreement which shall be violative of the laws of the State of Florida or the United States of America relating to usury. In no event shall Borrower pay or Lender accept or charge any interest which, together with any other charges upon the principal or any portion thereof, howsoever computed, after taking into account any requirement for commitment and facility fees, shall exceed the maximum lawful rate of interest allowable under the laws of the State of Florida or the United States of America from time to time. Should any provision of this Agreement or any existing or further notes, loan agreements or any other agreements between the parties be construed to require the payment of interest which, together with any other charges upon the principal or any portion thereof, after taking into account any requirement for commitment and facility fees, shall exceed such maximum lawful rate of interest, then any such excess shall not be charged to the Borrower and shall be applied against the remaining principal balance.

2.9 PAYMENTS. All payments of principal and interest under the Note shall be made to Lender at 150 S.E. Third Avenue, Miami, Florida 33131, in immediately available funds.

2.10 STANDBY L/C AGREEMENT. (a) Lender will, upon Borrower's application on the Standby L/C Agreement issue two (2) Standby L/C's on behalf of Borrower in connection with purchase by Borrower of the assets of Central Air Conditioning Distributors, Inc., a North Carolina corporation (the "Asset Purchase") in the maximum aggregate face amount of FOUR MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS (\$4,250,000.00). Lender will not issue any Standby L/C unless such instrument shall have an expiration date of not later than September 30, 1996. The issuance of the Standby L/C's shall, immediately upon the issuance thereof, reduce the amount of borrowing availability under the Revolving Credit by an amount equal to the face amount of the Standby L/C's.

(a) Upon a draw under any Standby L/C the Borrower shall reimburse Lender in accordance with the terms and conditions of the Standby L/C Agreement.

(b) In connection with each Standby L/C, Borrower shall pay to Lender a fee equal to one percent (1.0%) per annum on the face amount of each Standby L/C issued, together with all other costs and expenses incurred by Lender in connection with the issuance of a Standby L/C (the "Standby L/C Fee"). The Standby L/C Fee shall be due and payable on the date of issuance of each Standby L/C, and on the date of any subsequent renewal and/or extension thereof.

SECTION 3
ADDITIONAL COSTS AND FEES

3.1 ADDITIONAL COSTS. If at any time after the date hereof, and from time to time, the Lender determines that the adoption or modification of any applicable law, rule or regulation regarding taxation, the Lender's required levels of reserves, deposits, deposit insurance or capital (including any allocations of capital requirements or conditions), or similar requirements, or any interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation, administration or compliance of the Lender with any of such requirements, has or would have the effect of (i) increasing the Lender's costs relating to the Revolving Credit hereunder and (ii) reducing the yield or rate of return of the Lender on the Revolving Credit, to a level below that which the Lender could have achieved but for the adoption or modification of any such requirements, then, the Borrower shall, upon ninety (90) days prior written notice from the Lender, pay to the Lender such additional amounts as (in the Lender's sole judgment, after good faith and reasonable computation, the written explanation of which shall be presented to the Borrower) will compensate the Lender for such increase in costs which results in reduction in yield or rate of return of the Lender, said compensation to be calculated prospectively from the date of notice from the Lender. No failure of the Lender to immediately demand payment of any additional amounts payable hereunder shall constitute a waiver of the Lender's right to demand payment of such amounts at any subsequent time. Nothing herein contained shall be construed or so operate as to require the Borrower to pay any interest, fees, costs or charges greater than is permitted by applicable law.

3.2 FACILITY FEE. In connection with the Revolving Credit, the Borrower shall pay to the Lender an annual facility fee (the "Facility Fee") equal to the amount of the Revolving Credit multiplied by sixteen and sixty-seven one hundredths (16.67)

basis points per annum. The first annual payment of the Facility Fee shall be made to the Lender upon the Closing Date of the Revolving Credit and each subsequent payment of the Facility Fee shall be made on each anniversary of the Closing Date; provided, however, the Facility Fee payable in the final year of the Revolving Credit shall be reduced pro-rata based upon the number of months remaining from the last anniversary date through the Maturity Date.

In the event the Revolving Credit is terminated by Borrower prior to the Maturity Date, the Facility Fee shall be due and payable in full upon said termination, calculated based upon the term of the Revolving Credit minus any amounts previously paid. A restructure or renegotiation of the Revolving Credit by and between Borrower and Lender shall not be considered a termination by Borrower and any portion of the most recent installment of the Facility Fee which has been paid in advance of the restructuring or renegotiation of the Revolving Credit shall be credited to any new facility fee due and payable in connection with said restructuring or renegotiation.

SECTION 4
COLLATERAL

In order to secure the full and timely payment of all Indebtedness under the Revolving Credit, as well as any renewals, extensions or modifications thereof, and to secure performance of all obligations of Borrower to Lender, however and whenever created, and to protect the Lender's rights hereunder and under the Revolving Credit, on or before the Closing Date, all of the holders of the common stock of the Borrower shall execute a pledge agreement (the "Pledge Agreement") wherein Guarantor, as one hundred percent (100%) shareholder of Borrower, shall pledge in favor of the Lender its shares of common stock of the Borrower. The Borrower shall cause to be delivered to the Lender all of the stock certificates evidencing the Guarantor's ownership interest in the Borrower (the "Stock Certificates"), together with undated executed stock powers related thereto (the "Stock Powers") and a requisite UCC-1 financing statement (the "UCC"), in order to perfect the Lender's first priority security interest in the common stock of the Borrower, together with all proceeds thereof, said Pledge Agreement and UCC-1 to be in form and content satisfactory to the Lender and its counsel (all the foregoing hereinafter referred to as the "Collateral").

SECTION 5
GUARANTY

All of the Borrower's obligations under the Revolving Credit, as well as any renewals, modifications, amendments and extensions thereof, and all obligations of the Borrower to the Lender, howsoever and whenever incurred shall be unconditionally guaranteed by Watsco, Inc., a Florida corporation (hereinafter the "Guarantor"), pursuant to a written guaranty (hereinafter the "Guaranty") in form and content acceptable to Lender in its sole discretion.

SECTION 6
REPRESENTATIONS AND WARRANTIES

To induce the Lender to enter into this Agreement and to make the Advances and issue the Standby L/C's contemplated hereby, Borrower and Guarantor each represent and warrant to the Lender that:

6.1 ORGANIZATION, STANDING, CORPORATE POWER, ETC. It is duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and has corporate power and authority to own its properties and to carry on its business as now being conducted, in every jurisdiction where it is conducting its business, and has corporate power and authority to execute and perform this Agreement and to execute and deliver all other documents, instruments and agreements provided for herein.

6.2 AUTHORIZATION. The execution and performance of this Agreement, the borrowings hereunder and the execution and delivery of each of the Loan Documents, and all other documents and instruments provided for herein:

(a) have been duly authorized by all requisite corporate action, and do not require any consent or approval of any other Person, including without limitation, any of its stockholders or creditors;

(b) will not violate any provision of law relating to it, or its Articles of Incorporation or Bylaws, as amended to the date hereof; and

(c) will not violate or be in conflict with, result in a breach of, or constitute a default under, any indenture, agreement and other instrument to which it is a party or by which it or any of its properties is bound, or any order, writ, injunction or decree of any court or governmental institution, the result of which could have a material adverse effect on its financial or business condition.

6.3 LITIGATION. There are no actions, suits or proceedings pending, or, to its knowledge, threatened against or adversely affecting it, at law or in equity or before or by any federal agency or instrumentality, domestic or foreign, which involve any of the transactions herein contemplated, or the possibility of any judgment or liability which may result in any material adverse change in the business, operations, prospects, properties or assets, or in the condition, financial or otherwise, of Borrower or Guarantor or the possible loss or forfeiture of any material license or permit. It is not in default with respect to any judgment, order, writ, injunction, decree, or with respect to any rule or regulation of any court, or federal, state, municipal or other governmental department, the result of which could have a material adverse effect on the financial or business condition of Borrower or Guarantor.

6.4 FINANCIAL STATEMENTS. It heretofore has furnished to the Lender balance sheets, annual statements, and other financial information which, to the best of its knowledge, fairly and accurately present in all material respects the financial condition and the results of its operations as of the dates and for the periods indicated, and said financial statements show all known liabilities, direct or contingent material liabilities as of the dates thereof, and have been prepared in accordance with generally accepted accounting principles consistently applied. Since the date of the furnishing of the most recent financial statements, there has been no material adverse change in its financial or other condition.

6.5 TAXES. It has filed, or caused to be filed, all federal and state tax returns which, to the knowledge of the officers thereof, are required to be filed and has paid or caused to be paid all taxes as shown on said returns or on any assessment received by it and not being contested in good faith, to the extent that such taxes have become due.

6.6 BURDENSOME RESTRICTIONS. Except as are reflected on the most recent financial statements, it is not a party to any material agreement or instrument or subject to any charter or other corporate restrictions materially and adversely affecting its business, properties or assets, operations or condition, financial or otherwise.

6.7 CENTRAL OWNERSHIP. All of the issued and outstanding capital stock of Borrower is owned one hundred percent (100%) by Guarantor.

6.8 PROPERTY AND ASSETS. It has good and indefeasible title to all the property and assets reflected on the most recent financial statements furnished by it to the Lender, except such as has been disposed of in the ordinary course of business since

the date of said financial statements, and all such property and assets are free and clear of any liens, except liens for taxes not yet due, liens being contested in good faith, liens permitted elsewhere in this Agreement, liens on personal or real property as reflected in the most recent financial statements, and also except for liens, if any, on properties acquired subsequent to said statements and prior to the date of this Agreement.

6.9 PERMITS, LICENSES AND APPROVALS. It possesses all material permits, licenses or other governmental approvals required by any federal, state or local governmental authority for the conduct of its business as now conducted. Each such permit, license or other governmental approval is unencumbered, in good standing and there are no proceedings pending or, to the knowledge of it, threatened against it or any other party, which seek to suspend, revoke or terminate, or otherwise question the right of it to the benefits of any such permit, license or other governmental approval.

6.10 ENFORCEABILITY. This Agreement and each of the Loan Documents, when delivered hereunder, will constitute legal, valid and binding obligations of it, as applicable, enforceable against it in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency, equitable principles or other laws affecting the rights of creditors generally.

6.11 DEFAULT. It is not in default in any respect under, or with respect to, any contract, agreement or other instrument to which it is a party or by which it or its assets may be bound, the result of which default could have a material adverse effect on its financial or business condition and no Default or Event of Default under this Agreement has occurred and is continuing.

6.12 REGULATION U. It is not engaged nor will it principally engage, or engage as one of its important activities, in the business of extending credit for the purpose of "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect. No part of the proceeds of any loans hereunder will be used for "purchasing" or "carrying" "margin stock" as so defined or for any purpose which violates, or would be inconsistent with, the provisions or Regulations G, T, U or X of said Board or of any Regulations of such Board. Upon request, the Borrower will furnish the Lender with a statement in conformity with the requirements of Federal Reserve Form U-1 referred to in said Regulation U to the foregoing effect.

6.13 ERISA. The Plan, if any, maintained by it complies with all applicable requirements of ERISA and of the Code, and with all applicable rulings and regulations issued under the provisions of ERISA and the Code. No Reportable Event has occurred and is outstanding with respect to any Plan.

6.14 INVESTMENT COMPANY ACT. It is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

6.15 USE OF PROCEEDS. The proceeds of the Revolving Credit shall be used to finance the Asset Purchase, and for Borrower's general working capital requirements and Borrower will not use any portion of such proceeds for the benefit of any other Person unless permission is granted by the Lender in writing.

6.16 OTHER ASSETS. Except as reflected in the financial information previously furnished to the Lender, it did not, as of the date of said financial information, own all or any portion of the stock, property, or assets of any Person.

SECTION 7 CONDITIONS PRECEDENT

The obligations of the Lender under this Agreement are subject to the following conditions precedent:

7.1 OPINION OF COUNSEL. The Lender shall have received, on or prior to the Closing Date, the opinion of counsel (the "Opinion of Counsel") to Borrower and Guarantor dated the Closing Date, addressed to the Lender, confirming:

(a) Borrower and Guarantor are duly organized, validly existing and in good standing in their respective states of incorporation and otherwise qualified to conduct business in the states such business is conducted; that the party or parties signing all documents and instruments required in connection with this Agreement are each duly authorized to do so; that this Agreement and all agreements, documents and instruments related hereto, when executed and delivered to the Lender, will be valid and binding obligations of Borrower and Guarantor, as applicable, enforceable according to their respective terms;

(b) that there is no Charter or By-Law provision nor any agreement, contract, indenture, document or instrument to which Borrower or Guarantor is a party, nor any law or regulation or any decree of any court, governmental, authority, bureau or agency binding on Borrower or Guarantor which would be contravened by the execution or delivery of this Agreement or any

of the Loan Documents or by the performance of any term, provision, covenant, condition, agreement or obligation of Borrower or Guarantor contained herein or therein;

(c) that no order, consent, permit, authorization or approval is required by or from any governmental body, agency or authority, to validate this Agreement or any of the Loan Documents or any action taken, or to be taken by Borrower or Guarantor, hereunder or thereunder; and

(d) such other matters relating to Borrower and Guarantor and/or this Agreement as the Lender or its counsel may reasonably require.

7.2 SUPPORTING DOCUMENTS. The Lender shall have received from Borrower and Guarantor, as applicable, on or prior to the Closing Date or within such other time period indicated:

(a) a certificate of the Secretary of Borrower and Guarantor dated as of the Closing Date, certifying as to: (i) resolutions of its Board of Directors authorizing the execution, delivery and performance of this Agreement, the borrowings hereunder, and the execution and delivery to the Lender of each of the Loan Documents, and the full force and effect of such resolutions on the Closing Date; (ii) the incumbency and signature of each of the officers of Borrower and Guarantor signing any of the Loan Documents;

(b) The executed Note;

(c) The executed Pledge Agreement;

(d) The executed Financing Statements;

(e) The executed Guaranty;

(f) The executed Solvency Certificate;

(g) The executed Subordination Agreement;

(h) The Opinion(s) of Counsel;

(i) Certified copies of the Articles of Incorporation and Bylaws of Borrower and Guarantor and all amendments thereto, together with a Certificate of Good Standing of Borrower and Guarantor and proof of qualification to do business in each jurisdiction in which Borrower's and Guarantor's business is conducted;

(j) Evidence or certification that, from the date of the latest financial information furnished to Lender by Borrower

and Guarantor there has been no adverse change in the business or financial condition of Borrower or Guarantor;

(k) Evidence or certification that there exists no pending or threatened litigation, the result of which could have a material adverse effect on the business or financial condition of Borrower or Guarantor;

(l) Evidence that the Collateral is owned free and clear of all liens and encumbrances except those in favor of Lender;

(m) Evidence of the Rheem Agreement;

(n) All agreements, documents, instruments or certificates required to be reviewed by Lender in connection with the Asset Purchase;

(o) On or before October 26, 1995, proof satisfactory to Lender that the Asset Purchase has been closed;

(o) such additional supporting documents as the Lender or its counsel may reasonably request.

7.3 CONDITIONS TO ALL ADVANCES AND STANDBY L/C'S. On the date of each Advance and issuance of each Standby L/C hereunder:

(a) REPRESENTATIONS AND WARRANTIES. The representations and warranties set forth in Section 6 hereof shall be true and correct in all material respects on and as of such date with the same force and effect as though such representations and warranties had been made on and as of such date;

(b) NO DEFAULT. Borrower and Guarantor shall have observed and performed in all material respects all of the terms, conditions and agreements set forth herein on their part to be observed or performed and no Default or Event of Default shall have occurred and be continuing;

(c) FINANCIAL STATEMENTS. All financial statements, information and other data furnished by Borrower and Guarantor to the Lender shall be, in all material respects, accurate and correct; the financial statements shall have been prepared in accordance with generally accepted accounting principles consistently applied, and shall accurately represent the financial condition of Borrower and Guarantor, as applicable; no material adverse changes in the financial or other condition of Borrower or Guarantor shall have occurred since the date of said statements; and no material liabilities, contingent or otherwise, not shown on said financial statements, shall exist;

(d) LITIGATION. There shall be no actions, suits, proceedings or claims pending or threatened against or affecting Borrower or Guarantor, the result of which are likely to substantially and adversely affect Borrower's or Guarantor's financial condition, business or operations.

Each request for an Advance or issuance of a Standby L/C by the Borrower hereunder shall constitute a representation and warranty by Borrower as of the date of request for each such Advance that the conditions of paragraphs (a) through (d) above have been satisfied and that no Default or Event of Default has occurred as of such date.

SECTION 8
AFFIRMATIVE COVENANTS

Borrower and Guarantor, as applicable, covenant and agree with the Lender, that from the date hereof and so long as this Agreement remains in effect, or any obligations under the Loan Documents remain outstanding and unpaid, unless the Lender shall otherwise consent in writing, Borrower and Guarantor will:

WITH RESPECT TO BORROWER AND GUARANTOR:

8.1 CORPORATE EXISTENCE. Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its corporate existence, and all rights, licenses, permits and franchises required at the date hereof, or which may be required in the future conduct of its business, and comply with all applicable laws and regulations that affect it, and conduct and operate its business in the same lines and in substantially the same manner in which presently conducted and operated (subject to changes in the ordinary course of business), and at all times, maintain, preserve and protect, in the ordinary course of its business, all franchises, trade names and all property used or required in the conduct of its business, and maintain all such property in good working order and condition.

8.2 INSURANCE. Maintain its insurable properties adequately insured at all times by financially sound and reputable insurers, to such extent and against such risks, including liability, comprehensive, and property damage insurance, flood, earthquake and other risks in amounts as is customary with companies in the same or similar location and business, and the Borrower shall deliver certificates evidencing such insurance to Lender on or before the Closing Date. The Borrower shall provide at least ten (10) days prior written cancellation notice of intended policy cancellation, non-renewal or material modification.

8.3 OBLIGATIONS AND TAXES. Pay and discharge promptly all taxes, assessments and governmental charges or levies imposed upon it in respect of any of its properties, before the same shall become in default, as well as all lawful claims of labor, materials and supplies or otherwise which, if unpaid, might become a lien or charge upon such properties or any part thereof; provided, however, that it shall not be required to pay and discharge, or to cause to be paid and discharged, any such tax, assessment, charge, levy or claim so long as the validity thereof shall be contested in good faith by appropriate proceedings and adequate reserves shall have been set aside and reflected on its financial statements furnished to the Lender with respect to any such tax, assessment, charge, levy or claim so contested.

8.4 NOTICE. Give prompt written notice to the Lender of all Defaults or Events of Default of which it becomes aware, under any of the terms and provisions of this Agreement or any of the Loan Documents, or of any default or event of default under any other agreement, contract, indenture, document or instrument entered, or to be entered into by it, or any changes in its current management, and of any other matter which has resulted in, or might result in, a materially adverse change in its financial condition or operations.

8.5 BOOKS AND RECORDS/AUDITS. Keep and maintain full and accurate accounts, books and records of its operations according to generally accepted accounting principles consistently applied. Borrower and Guarantor shall permit the Lender or any of the Lender's designated officers, employees, agents and representatives, to audit, examine and inspect, at all reasonable times, Borrower's and Guarantor's operational procedures, systems, accounts receivable, accounts payable, inventory, general ledger, books and records.

8.6 COMPLIANCE WITH LAW. Comply in all material respects with the requirements of all applicable laws, rules, regulations, and orders of governmental authorities relating to the conduct of its business.

8.7 TRANSACTIONS WITH AFFILIATES. Enter into all transactions with Affiliates on an arms length basis, on substantially the same terms and conditions as are customarily employed in transactions with non-affiliated parties.

8.8 CONTINGENT LIABILITIES. Inform Lender of any material actual or potential contingent liabilities.

8.9 EXECUTION OF OTHER DOCUMENTS. Promptly upon demand by the Lender, execute all such additional agreements, contracts,

indentures, documents and instruments in connection with this Agreement as the Lender may reasonably deem necessary.

WITH RESPECT TO BORROWER:

8.10 REPORTING REQUIREMENTS - BORROWER. Cause to be furnished to the Lender:

(a) as soon as available, but in any event not later than one hundred twenty (120) days after the close of fiscal year ending December 31, 1995, a management prepared financial statement of Borrower for such fiscal year, including a balance sheet, related statements of income and retained earnings and the related statements of changes in financial position and cash flows, and all schedules thereto, all in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied.

(b) as soon as available, an audited balance sheet dated as of the Closing Date, and all schedules thereto, all in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied.

(c) commencing December 31, 1996, as soon as available, but in any event no later than one hundred twenty (120) days after the close of each fiscal year, with a copy of the unqualified audited (consolidated and/or consolidating, if appropriate) financial statements of the Borrower for such fiscal year, including a balance sheet for such fiscal year as at the end of such fiscal year, and related statements of income and retained earnings and changes in financial position and cash flows, and all schedules thereto, for such fiscal year, setting forth in each case in comparative form, the corresponding figures for the preceding fiscal year, all in reasonable detail, prepared in accordance with generally accepted accounting principles applied on a consistent basis, such financial statements to be audited by independent certified public accountants of recognized standing selected by the Borrower and acceptable to the Lender in its reasonable discretion (such certification not to be qualified or limited because of any restricted or limited examination made by such accountants);

(d) as soon as available, but in any event not later than forty-five (45) days after the end of each of the first three (3) quarterly periods of each fiscal year of the Borrower, with company prepared unaudited financial statements of the Borrower, including a balance sheet as at the end of such fiscal quarter, and related statements of income and retained earnings and all schedules thereto, all for the period from the beginning of such fiscal year to the end of such fiscal quarter, the financial statements setting forth in each case corresponding figures for the like period of the preceding fiscal year; all in

reasonable detail, prepared in accordance with generally accepted accounting principles applied on a basis consistently maintained throughout the period involved and with prior periods and certified by the President or Chief Financial Officer of the Borrower;

(e) concurrently with the delivery of the financial statements referred to in clauses (c) and (d) above, with a certificate of the President or Chief Financial Officer of the Borrower containing: (i) certification that the financial statements are true and correct; that, to the best of his or her knowledge, during such period the Borrower has kept, observed, performed and fulfilled each and every covenant and condition contained in this Agreement, and that he or she has no knowledge of any Default or Event of Default hereunder except as specifically indicated in such certificate; (ii) computations and conclusions, in such detail as Lender may request, with respect to compliance with this Agreement and all documents executed in connection therewith, including computations of all quantitative covenants;

(f) promptly after the filing or receiving thereof, copies of all reports and notices which Borrower files, or after the occurrence of a Reportable Event or condition which might constitute grounds for the termination of or for the appointment of a trustee or administrator of any Plan, under ERISA or the United States Department of Labor;

(g) within ten (10) days after service of process or equivalent notice, written notice of any litigation, including arbitrations and of any proceeding by or before any governmental agency where the amount involved or the nature of the proceeding, if adversely determined, may materially and adversely affect Borrower's business, operations, prospects, properties, or assets, or the Borrower's condition, financial or otherwise;

(h) promptly, from time to time, such other information relating to Borrower's business, properties, or conditions or operations, financial or otherwise, as the Lender may reasonably request.

8.11 NET WORTH - BORROWER. With respect to Borrower, (A) achieve a Net Worth (hereinafter defined) as of December 31, 1995 equal to or greater than Borrower's Net Worth as of the Closing Date, plus an amount equal to Borrower's net income reported as of December 31, 1995, less any amount paid in dividends to shareholders as permitted herein; (B) achieve a Net Worth as of June 30, 1996, equal to or exceeding Borrower's Net Worth reported as of December 31, 1995; (C) achieve a Net Worth as of September 30, 1996 equal to or exceeding Borrower's Net Worth reported as of June 30, 1996; and (D) commencing December 31,

1996 and each fiscal year thereafter, Borrower shall achieve and maintain a Net Worth equal to or exceeding Borrower's Net Worth reported as of the prior fiscal year end plus an amount equal to Borrower's net income reported as of the end of each respective fiscal year, less any amount paid in dividends to shareholders as permitted herein.

8.12 FUNDED DEBT/EARNINGS RATIO - BORROWER. With respect to Borrower, maintain at all times a Funded Debt/Earnings Ratio (hereinafter defined) not to exceed 6.0 to 1.0 as of December 31, 1996; 5.0 to 1.0 commencing as of December 31, 1997; and 4.0 to 1.0 commencing as of December 31, 1998. As used herein, Funded Debt/Earnings Ratio shall be defined as the ratio determined by comparing Borrower's: (A) Funded Debt; to (B) earnings before interest expense, taxes and depreciation/amortization expense.

The Funded Debt/Earnings Ratio shall be determined each fiscal quarter on a rolling four (4) quarter basis including the Borrower's financial results for the immediately preceding four (4) fiscal quarters.

8.13 FIXED CHARGE COVERAGE RATIO - BORROWER. With respect to Borrower, commencing December 31, 1996 and quarterly thereafter, maintain at all times a Fixed Charge Coverage Ratio (hereinafter defined) of not less than 1.5:1.0. As used herein the Fixed Charge Coverage Ratio shall be defined as the ratio determined by comparing Borrower's: (A) earnings before interest expense, taxes and lease expense; to (B) interest expense and lease expense.

The Fixed Charge Coverage Ratio shall be determined each fiscal quarter on a rolling four (4) quarter basis utilizing the Borrower's financial results for the immediately preceding four (4) fiscal quarters.

8.14 DISTRIBUTORSHIP AGREEMENT - BORROWER. With respect to the Borrower, maintain in full force and effect the Rheem Agreement.

WITH RESPECT TO GUARANTOR:

8.15 REPORTING REQUIREMENTS - GUARANTOR. Guarantor shall cause to be furnished to the Lender:

(a) as soon as available, but in any event not later than one hundred twenty (120) days after the close of each fiscal year of the Guarantor, an audited consolidated balance sheet of the Borrower for such fiscal year as at the end of such fiscal year, related audited statements of income and retained earnings and the related consolidated statements of changes in financial position, and cash flows, showing the cash inflows and cash

outflows of the Guarantor for such fiscal year, setting forth, in each case in comparative form, the corresponding figures for the preceding fiscal year, all in reasonable detail, prepared in accordance with generally accepted accounting principles applied on a basis consistently maintained throughout the period involved and the prior year; such financial statements to be certified by independent certified public accountants selected by the Guarantor and acceptable to the Lender (the "CPA") (such certification not to be qualified or limited by such accountants) and certified by its chief financial officer; (the Lender's acceptance of the CPA shall not be unreasonably withheld);

(b) as soon as available, but in any event not later than one hundred twenty (120) days after the close of each fiscal year of the Guarantor, consolidating financial statements of the Guarantor for such fiscal year, including a consolidating balance sheet, related consolidating statements of income and retained earnings, and schedules thereto, setting forth in each case in comparative form, the corresponding figures for the preceding fiscal year, all in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied.

(c) within ten (10) days of the filing thereof with the Securities and Exchange Commission ("SEC") each 10-K and 10-Q filed by the Guarantor with the SEC, together with all schedules and exhibits filed therewith, said statements to be prepared according to the standards set forth by the SEC for such reports;

(d) concurrently with the delivery of the financial statements referred to in clause (a), (b) and (c) above, if requested by Lender, a certificate of the President or Chief Financial Officer of Guarantor containing: (i) certification that the financial statements are true and correct; that, to the best of his or her knowledge, during such period the Guarantor has kept, observed, performed and fulfilled each and every covenant and condition contained in this Agreement and that he or she has obtained no knowledge of any Default or Event of Default hereunder except as specifically indicated in such certificate; and (ii) computations and conclusions, in such detail as Lender may request, with respect to compliance with this Agreement and all documents executed in connection therewith, including computations of all quantitative covenants;

(e) promptly after the same are sent, copies of all proxy statements, financial statements and reports which the Guarantor sends to its stockholders, and within ten (10) days after the same are filed, copies of all regular, periodic and special reports (including but not limited to reports on Forms 10-K, 10-Q and 8-K), and all registration statements which the Guarantor files with the SEC or any governmental authority which

may be substituted therefor, or with any national securities exchange;

(f) promptly after the filing or receiving thereof, copies of all reports and notices which the Guarantor files, after the occurrence of a Reportable Event or condition which might constitute grounds for the termination of or for the appointment of a trustee or administrator of any Plan, under ERISA or the United States Department of Labor;

(g) within ten (10) days after service of process or equivalent notice, written notice of any litigation, including arbitrations and of any proceeding by or before any governmental agency where the amount involved or the nature of the proceeding, if adversely determined, may materially and adversely affect the Guarantor's business, operations, prospects, properties, or assets, or the Guarantor's condition, financial or otherwise;

(h) promptly, from time to time, such other information relating to Guarantor's business, properties, or conditions or operations, financial or otherwise, as the Lender may reasonably request.

8.16 TANGIBLE NET WORTH - GUARANTOR. With respect to Guarantor, achieve and maintain a Tangible Net Worth equal to at least THIRTY MILLION DOLLARS (\$30,000,000.00).

8.17 LEVERAGE RATIO - GUARANTOR. With respect to the Guarantor, report a ratio of total Liabilities to Tangible Net Worth not to exceed 3.0 to 1.0 at all times.

8.18 MANAGEMENT - GUARANTOR. With respect to Guarantor, maintain Albert H. Nahmad and Ronald P. Newman in its active day to day control and management.

SECTION 9 NEGATIVE COVENANTS

The Borrower and Guarantor, as applicable, covenant and agree with the Lender that from the date hereof and so long as this Agreement remains in effect or any obligations under the Loan Documents remain outstanding and unpaid, unless the Lender shall otherwise consent in writing, the Borrower and Guarantor will not:

WITH RESPECT TO BORROWER AND GUARANTOR:

9.1 DEFAULT UNDER OTHER AGREEMENTS OR CONTRACTS. Commit or do, or fail to commit to do, any act or thing which would constitute a default under any of the terms or provisions of any

other agreement, contract, indenture, document or instrument executed, or to be executed by it if the effect of such default could materially and adversely affect the business or financial condition of (i) the Borrower; (ii) Guarantor and its subsidiaries taken as a whole;

9.2 ACCOUNTING PRACTICES. Change any of its accounting practices or procedures, unless such change is in accordance with or permitted within generally accepted accounting principles.

WITH RESPECT TO BORROWER:

9.3 GUARANTIES/DEBT ASSUMPTIONS - BORROWER. With respect to Borrower, guarantee any obligations or assume any indebtedness, except that Borrower shall be entitled to endorse instruments for collection in the ordinary course of business.

9.4 SALE/LEASEBACK AND CAPITALIZED LEASE TRANSACTIONS - BORROWER. With respect to Borrower, enter into any sale and lease-back or capitalized lease obligation with respect to any of its fixed assets which would exceed TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) in the aggregate.

9.5 DISPOSAL OF PROPERTY - BORROWER. With respect to Borrower, except for the sale of inventory in the ordinary course of business, sell significant assets where the consideration or purchase price for such assets would exceed TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) in the aggregate during any fiscal year.

9.6 OWNERSHIP - BORROWER. With respect to Borrower, change in any way its ownership.

9.7 ADDITIONAL INDEBTEDNESS - BORROWER. With respect to Borrower, with the exception of (i) Indebtedness incurred in connection with the Asset Purchase, in an amount not to exceed FOUR MILLION TWO HUNDRED FIFTY THOUSAND DOLLARS (\$4,250,000.00), and including the Subordinated Indebtedness; and (ii) Indebtedness to Guarantor, advanced by Guarantor to Borrower to support short term working capital needs of Borrower in an amount not to exceed TWO MILLION DOLLARS (\$2,000,000.00) outstanding at any time; incur, create, assume or permit to exist any additional Indebtedness for borrowed money, secured or unsecured, or in the form of purchase money obligations or capitalized leases in an amount exceeding FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) in the aggregate at any one time outstanding.

9.8 DIVIDENDS - BORROWER. With respect to Borrower, pay or declare dividends to shareholders in excess of one hundred percent (100%) of net profit after taxes for the immediately preceding fiscal year end.

9.9 ADDITIONAL LIENS - BORROWER. With respect to Borrower, incur, create, assume or permit to exist any additional Liens on any of its property or assets now owned or hereafter acquired, except for Liens incurred in connection with the purchase money financing permitted under Section 9.7 hereinabove.

9.10 CAPITAL EXPENDITURES - BORROWER. With respect to Borrower, make capital expenditures in any fiscal year exceeding TWO HUNDRED FIFTY THOUSAND DOLLARS (\$250,000.00) in the aggregate.

9.11 ADVANCES TO AFFILIATES. Make any loans, advances or distributions to stockholders, subsidiaries, Affiliates, officers, employees or third parties.

9.12 LIMITATION ON MERGERS AND SALE OF ASSETS. With the exception of the Asset Purchase, enter into any transaction or merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or a substantial part of its business or assets.

9.13 CONTROL/NAME. Change in any way its control, name or otherwise change its nature of business.

9.14 NOTES, ACCOUNTS RECEIVABLE. Except for the purpose of collection in the ordinary course of business, sell, assign, transfer, discount or otherwise dispose of notes, accounts receivable or other rights to receive payment, with or without recourse.

BORROWER, GUARANTOR AND LENDER EXPRESSLY ACKNOWLEDGE AND AGREE THAT THE COVENANTS SET FORTH HEREIN PERTAINING TO GUARANTOR SHALL BE MODIFIED AND AMENDED IN ACCORDANCE AND SIMULTANEOUSLY WITH ANY MODIFICATION OR AMENDMENT OF THE COVENANTS SET FORTH IN THE LINE AGREEMENT.

SECTION 10
DEFAULTS AND REMEDIES

10.1 EVENTS OF DEFAULT AND REMEDIES. If any one or more of the following Events of Default shall occur for any reason whatsoever (and whether such occurrences shall be voluntary or involuntary, or come about or be affected 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 administrative or governmental body), that is to say:

(a) any representation or warranty made herein or by the Borrower or Guarantor in any report, certificate, financial statement or other instrument furnished in connection with this Agreement, or any Advance or borrowing hereunder, shall prove to be false or misleading in any material respect, or any representation or warranty made by the Borrower or Guarantor in any future report, certificate, financial statement or other instrument furnished in connection with this Agreement, or any Advances or borrowings hereunder, shall prove to be false or misleading in any material respect, which representation or warranty made by the Borrower or Guarantor remains false or misleading in any material respect for a period of thirty (30) days after the occurrence thereof;

(b) the Borrower shall fail to pay the principal of or interest on any obligations created hereunder, within five (5) days of when and as the same shall become due and payable, whether at the due date or by acceleration or otherwise;

(c) any default shall occur on the part of the Borrower or Guarantor in the due observance or performance of any covenant, agreement or other provision of this Agreement or any of the Loan Documents, other than for the payment of money, which default remains in effect for a period of thirty (30) consecutive days after the occurrence thereof;

(d) the Borrower or Guarantor shall fail to make payment of principal or interest on any other Indebtedness beyond any period of grace provided with respect thereto, or shall default in the performance of any other agreement, covenant, term or condition contained in any agreement under which any such obligation is created, if the effect of such default is to cause the holder or holders of such Indebtedness to accelerate the maturity thereof or results in a material adverse effect on its business or financial condition;

(e) Borrower or Guarantor shall (i) apply for or consent to the appointment of a receiver, trustee in bankruptcy for benefit of creditors, or liquidator of it or of any of its property; (ii) admit in writing its inability to pay its debts as they mature or generally fail to pay such debts as they mature; (iii) make a general assignment for the benefit of creditors; (iv) be adjudicated a bankrupt or insolvent; (v) file a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors, or seeking to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or statute or an answer admitting an act of bankruptcy alleged in a petition filed against it in any proceeding under any such law; or (vi) take any corporate action for the purpose of effecting any of the foregoing;

(f) an order, judgment or decree shall be entered against Borrower or Guarantor, without its application, approval or consent, or by any court of competent jurisdiction, approving a petition seeking the reorganization of it or appointing a receiver, trustee or liquidator of it or of all or a substantial part of the assets thereof, and such order, judgment or decree shall continue unstayed and in effect for a period of thirty (30) consecutive days from the date of entry thereof;

(g) a final judgment or final judgments, excluding claims covered by insurance, shall be rendered against the Borrower or Guarantor except for final judgments which do not exceed FIVE HUNDRED THOUSAND DOLLARS (\$500,000.00) in the aggregate, and the same shall remain undischarged for a period of thirty (30) consecutive days during which execution shall not be effectively stayed, provided that a judgment shall be deemed "final" only when the time for appeal shall have expired without an appeal having been claimed, or all appeals and further review claimed shall have been determined adversely to it;

(h) any monies, deposits other property of the Borrower or Guarantor now or hereafter on deposit with, or in the possession or under control of the Lender, shall become subject to attachment proceedings, or distraint proceedings or any order or process of court, and such proceedings are not effectively stayed within a period of thirty (30) consecutive days after the institution thereof;

(i) any default shall occur under any other existing or future written agreements between the Borrower or Guarantor and the Lender which remains uncured after expiration of any applicable grace period;

(j) any material adverse change in the business or financial condition of Borrower or Guarantor, as determined by Lender;

(k) the liquidation, dissolution, or wind-up of Borrower or Guarantor, whether voluntarily or involuntarily, or failure of Borrower or Guarantor to maintain its corporate existence;

(l) the invalidation, discharge or subordination, in whole or in part, of any of Lender's security documents or any of the Lender's liens;

(m) the sale, transfer or conveyance of any part or portion of the Collateral, or any interest therein;

(n) cancellation, termination or material breach of the Rheem Agreement; provided, however, Borrower shall have thirty (30) days to cure any breach of the Rheem Agreement;

(o) any default shall occur under the Guaranty, the Line Agreement or the Standby L/C Agreement.

THEN, and in every such Event of Default, the Lender may, at its option: (i) declare all obligations of the Borrower to the Lender hereunder and under the Standby L/C Agreement to be due and payable forthwith, including without limitation principal, interest, fees, costs and expenses, whereupon the Note shall become due and payable immediately, both as to principal and interest, without presentment, demand, protest or notice of any kind, all of which are hereby expressly waived, anything contained herein or in such Notes to the contrary notwithstanding; (ii) declare permanently terminated any commitment of the Lender to make further Advances or issue any further Standby L/C's; and (iii) pursue all of the rights and remedies available to the Lender under this Agreement and each of the Loan Documents.

SECTION 11
MISCELLANEOUS

11.1 NOTICES. All notices, requests, demands and other communications provided for hereunder shall be in writing and mailed by registered or certified mail, sent by facsimile transmission or hand delivered to the applicable party at the address indicated below:

IF TO THE BORROWER: CAC ACQUISITION, INC./CENTRAL
AIR CONDITIONING DISTRIBUTORS, INC.
c/o Watsco, Inc.
2665 South Bayshore Drive
Coconut Grove, Florida 33133
Attn: Ronald P. Newman

IF TO GUARANTORS: WATSCO, INC.
2665 South Bayshore Drive
Coconut Grove, Florida 33133
Attn: Ronald P. Newman,
Vice President-Finance

WITH A COPY TO: GREENBERG TRAUIG
1221 Brickell Avenue
Miami, Florida 33131
Attn: Cesar L. Alvarez, Esq.

IF TO THE LENDER:

NATIONSBANK OF FLORIDA, N.A.
150 S.E. Third Avenue
Miami, Florida 33131
Attn: Commercial Banking Manager
and Steven C. Mayer, Vice President

WITH A COPY TO:

BUCHANAN INGERSOLL P.C.
One Turnberry Place
19495 Biscayne Boulevard, Suite 606
Miami, Florida 33180-2320
Attn: Ralph B. Bekkevold, Esq.

or, as to any party, at such other address as shall be designated by such party in a written notice to the other party complying as to delivery with the terms of this Section. All such notices, requests, demands and other communications shall be deemed to have been duly given or made, in the case of facsimile transmission when an appropriate answerback has been received by the sending party, in the case of registered or certified mail, on the third Business Day after the day on which mailed, and in the case of hand delivery, upon actual delivery.

11.2 SURVIVAL OF REPRESENTATIONS. All covenants, agreements, representations and warranties made herein and in the certificates delivered pursuant hereto shall survive the making by the Lender of the borrowings herein contemplated, and the execution and delivery to the Lender of each of the Loan Documents and shall continue in full force and effect so long as any Indebtedness created hereunder is outstanding and unpaid. All covenants and agreements by or on behalf of the parties hereto which are contained or incorporated in this Agreement shall bind and inure to the benefit of the successors and assigns of all parties hereto.

11.3 EFFECT OF DELAY. Neither any failure nor any delay on the part of the Lender in exercising any right, power or privilege hereunder or under any of the Loan Documents shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise of any other right, power or privilege.

11.4 EXPENSES. The Borrower shall pay all fees and out-of-pocket expenses reasonably incurred by the Lender in connection with the preparation and closing of this Agreement, including but not limited to the fees and expenses of special counsel for the Lender, and shall pay the fees and expenses incurred by the Lender in connection with the borrowings hereunder, and the enforcement of the rights of the Lender in connection with this Agreement, including but not limited to the reasonable fees and expenses of counsel.

11.5 MODIFICATIONS AND WAIVERS. No modification or waiver of any provision of this Agreement nor consent to any departure by the Borrower or Guarantor therefrom shall in any event be effective unless the same shall be in writing and signed by the Lender, and such waiver or consent shall be effective only in the specific instance and for the purpose of which given. No notice to or demand on the Borrower or Guarantor in any case shall thereby entitle it to any other or further notice or demand in the same, similar or other circumstances.

11.6 DISCLAIMER. The Lender shall incur no liability to the Borrower or Guarantor in acting upon any advice received by the Lender, whether oral or written, which the Lender believes in good faith to have been given by an officer or other person authorized to borrow on behalf of the Borrower or in otherwise acting in good faith under this Agreement. Further, all documents required to be executed in conjunction with borrowings under this Agreement may be signed by any of the officers or other persons duly authorized by the general borrowing resolutions of the Borrower and Guarantor, as applicable, as such resolutions may be amended from time to time.

11.7 REMEDIES CUMULATIVE. Any rights or remedies of the Lender hereunder, or under any other writing shall be cumulative and in addition to every other right or remedy contained therein or herein, now in existence or existing hereafter, at law or in equity by statute or otherwise. Upon the occurrence of an Event of Default, the Lender may proceed to enforce any of the rights and remedies against the Borrower and Guarantor, or against any collateral given as security for the Indebtedness hereunder, and the Lender may enforce such rights and remedies simultaneously, or in such order and at such time, or from time to time, as the Lender determines in its sole and absolute discretion.

11.8 APPLICATION OF PAYMENTS. Payments received by the Lender from the Borrower or Guarantor, whether direct or from realizations on any collateral, may be applied to payment of such obligations of the Borrower in such order of application as the Lender may elect, and the Borrower and Guarantor hereby waives any rights to designate to which of its obligations any such payments shall be applied.

11.9 CONSTRUCTION. This Agreement shall be governed and construed in accordance with the laws of the State of Florida except as to regulations governing interest rates or other terms of lending which are governed by all applicable laws.

11.10 SEVERABILITY OF PROVISIONS. Any provision of this Agreement which is unenforceable in any jurisdiction shall, as to such jurisdiction be ineffective only to the extent of such unenforceability, without invalidating the remaining provisions

thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

11.11 HEADINGS. Article and Section headings in this Agreement are included herein for convenience of reference only and shall not constitute a part of this Agreement for any other purpose.

11.12 SUCCESSORS AND ASSIGNS. All of the terms and provisions of this Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns, except that neither the Borrower nor Guarantor shall have the right to assign its rights hereunder or any interest herein.

11.13 INDEMNIFICATION. The Borrower agrees to indemnify the Lender and to pay for all documentary stamp taxes, intangible taxes and penalties thereon which may become due in connection with this Agreement or the Note. The Borrower shall execute a letter in favor of the Lender evidencing this indemnification.

11.14 TIME OF PAYMENTS. All payments required to be made by the Borrower hereunder (except for direct debits by the Lender) shall be paid to the Lender in readily available funds on or before 2:00 P.M. (Miami, Florida time) on the dates such payments are due. Payments received by the Lender subsequent to that time will be credited to the Borrower on the next successive Business Day.

11.15 MANDATORY ARBITRATION. Any controversy or claim between or among the parties hereto including but not limited to those arising out of or relating to this Agreement or any related agreements or instruments, including any claim based on or arising from an alleged tort, shall be determined by binding arbitration in accordance with the Federal Arbitration Act (or if not applicable, the applicable state law), the Rules of Practice and Procedure for the Arbitration of Commercial Disputes of Judicial Arbitration and Mediation Services, Inc. (J.A.M.S.), and the "Special Rules" set forth below. In the event of any inconsistency, the Special Rules shall control. Judgment upon any arbitration award may be entered in any court having jurisdiction. Any party to this Agreement may bring an action, including a summary or expedited proceeding, to compel arbitration of any controversy or claim to which this Agreement applies in any court having jurisdiction over such action.

(a) SPECIAL RULES. The arbitration shall be conducted in the city of Lender's domicile at time of this Agreement's execution and administered by J.A.M.S. who will appoint an arbitrator; if J.A.M.S. is unable or legally precluded from administering the arbitration, then the American Arbitration

Association will serve. All arbitration hearings will be commenced within ninety (90) days of the demand for arbitration; further, the arbitrator shall only, upon a showing of cause, be permitted to extend the commencement of such hearing for up to an additional sixty (60) days.

(b) RESERVATION OF RIGHTS. Nothing in this Agreement shall be deemed to (i) limit the applicability of any otherwise applicable statutes of limitation or repose and any waivers contained in this Agreement; or (ii) be a waiver by Lender of the protection afforded to it by 12 U.S.C. ss.91 or any substantially equivalent state law; or (iii) limit the right of Lender (A) to exercise self help remedies such as (but not limited to) setoff, or (B) to foreclose against any real or personal property collateral, or (C) to obtain from a court provisional or ancillary remedies such as (but not limited to) injunctive relief or the appointment of a receiver. Lender may exercise such self help rights, foreclose upon such property, or obtain such provisional or ancillary remedies before, during or after the pendency of any arbitration proceeding brought pursuant to this Agreement. At Lender's option, foreclosure under a pledge and assignment agreement, a deed of trust or mortgage may be accomplished by any of the following: the exercise of a power of sale under the security instrument, or by judicial sale under the security instrument, or by judicial foreclosure. Neither this exercise of self help remedies nor the institution or maintenance of an action for foreclosure or provisional or ancillary remedies shall constitute a waiver of the right of any party, including the claimant in any such action, to arbitrate the merits of the controversy or claim occasioning resort to such remedies.

(c) ARBITRAL AWARD. The arbitral award shall include (i) a provision that the prevailing party in such arbitration shall recover its costs of the arbitration and reasonable attorneys' fees and expenses from the other party; and (ii) the amount of such costs, fees and expenses. Any cause of action subject to such arbitration shall be subject to the same statute of limitations that would have been applicable to such cause of action in an action of law.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

[BORROWER]

CAC ACQUISITION, INC.,
a North Carolina corporation

By: /s/ BARRY S. LOGAN

As: President

[CORPORATE SEAL]

[GUARANTOR]

WATSCO, INC.,
a Florida corporation

By: /s/ RONALD P. NEWMAN

As: V.P. of Finance

[CORPORATE SEAL]

[LENDER]

NATIONSBANK OF FLORIDA, N.A.

By: /s/ SIGFREDO BIRRIEL

As: Senior Vice President

STATE OF NORTH CAROLINA)
) SS:
COUNTY OF FORSYTH)

The foregoing instrument was acknowledged before me in Winston-Salem, North Carolina this 26th day of October, 1995 by Barry S. Logan, as President of CAC ACQUISITION, INC., a North Carolina corporation, on behalf of said corporation, who is personally known to me or has produced Florida Driver's License as identification.

/s/ KAY F. HARPER

NOTARY PUBLIC
Print Name: Kay F. Harper
Serial No: ###-##-####

[NOTARY SEAL]

My Commission Expires: 3/8/98

STATE OF NORTH CAROLINA)
) SS:
COUNTY OF FORSYTH)

The foregoing instrument was acknowledged before me in Winston-Salem, North Carolina this 26th day of October, 1995 by Ronald P. Newman, as V.P. of Finance of WATSCO, INC., a Florida corporation, on behalf of said corporation, who is personally known to me or has produced Florida Driver's License as identification.

/s/ KAY F. HARPER

NOTARY PUBLIC
Print Name: Kay F. Harper
Serial No: ###-##-####

[NOTARY SEAL]

My Commission Expires: 3/8/98

STATE OF NORTH CAROLINA)
) SS:
COUNTY OF FORSYTH)

The foregoing instrument was acknowledged before me in Winston-Salem, North Carolina this 26th day of October, 1995 by Sigfredo Birriel, as Sr. Vice President of NATIONSBANK OF FLORIDA, N.A., a national banking association on behalf of said Bank, who is personally known to me or has produced Florida Driver's License as identification.

/s/ KAY F. HARPER

[NOTARY SEAL]

NOTARY PUBLIC
Print Name: Kay F. Harper
Serial No: ###-##-####

My Commission Expires: 3/8/98

[Rheem logo]

Rheem Manufacturing Company
405 Lexington Avenue /bullet/ 22nd Floor
New York, New York 10174-0307
(212) 916-8100

Telex: 5106006-166
Fax: (212) 916-8109

Gary L. Tapella
President and
Chief Executive Officer

January 1, 1996

Watsco, Inc.
2665 South Bayshore Drive
Coconut Grove, Florida 33133

Attention: A. H. Nahmad, Chairman

Gentlemen:

This is to advise that Rheem will not exercise its right to Call Watsco's interest in Gemaire Distributors, Heating and Cooling Supply and Comfort Supply through the Election Period in 1997 as provided and defined in Sections 3.1.1 and 3.2 of our Shareholders Agreement in each company.

To assist Watsco in its examination of certain financing options this letter of advise is being provided on this date rather than the effective date of such right to Call.

Rheem Manufacturing Company

By /s/ GARY L. TAPELLA

President

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants, we hereby consent to the use of our reports (and to all references to our Firm) included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Fort Lauderdale,
January 18, 1996.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the inclusion in this registration statement on Form S-3 of Watsco, Inc. of our report on our audit of the financial statements of Three States Supply Company, Inc. We also consent to the reference to our firm under the caption "Experts."

RHEA & IVY, P.L.C.

Memphis, Tennessee,
January 18, 1996.