

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1996-04-01** | Period of Report: **1995-12-31**

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### FILER

#### WATSCO INC

CIK: **105016** | IRS No.: **590778222** | State of Incorporation: **FL** | Fiscal Year End: **1231**

Type: **10-K405** | Act: **34** | File No.: **001-05581** | Film No.: **96543417**

SIC: **5070** Hardware & plumbing & heating equipment & supplies

#### Mailing Address

2665 SOUTH BAYSHORE DR,  
STE 901  
MIAMI FL 33133

#### Business Address

2665 S BAYSHORE DR  
STE 901  
MIAMI FL 33133  
3058580828

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934

Commission File Number 1-5581

WATSCO, INC.

(Exact name of registrant as specified in its charter)

FLORIDA

(State or other jurisdiction of  
incorporation or organization)

59-0778222

(I.R.S. Employer  
Identification No.)

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

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

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

Title of Each Class -----	Name of Each Exchange on Which Registered -----
Common Stock, \$.50 par value	New York Stock Exchange
Class B Common Stock, \$.50 par value	American Stock Exchange
10% Convertible Subordinated Debentures Due 1996	American Stock Exchange

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

None  
(Title of class)

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

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

The aggregate market value of the voting stock held by non-affiliates of  
the Registrant as of March 21, 1996 was \$183,491,004.

The number of shares of Common Stock outstanding as of March 21, 1996 was  
7,544,771 shares of Common Stock and 1,442,378 shares of Class B Common Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Parts I and II is incorporated by reference  
from the Annual Report to Stockholders for the year ended December 31, 1995,  
attached hereto as Exhibit 13. The information required by Part III (Items 10,  
11, 12 and 13) will be incorporated by reference from the Registrant's

## PART I

### ITEM 1. BUSINESS

#### GENERAL

Watsco, Inc. (the "Registrant" or the "Company") is the largest distributor of residential central air conditioners and supplies 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, North Carolina, Latin America and South America. 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 \$331 million in 1995.

The Company estimates that the market for residential central air conditioners and related supplies in the sunbelt was over \$7 billion in 1994 and has grown at an annual rate of 5.6% 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 Air Conditioning and Refrigeration Institute (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 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 conducts its distribution business through its subsidiaries: Gemaire Distributors, Inc. ("Gemaire"); Heating & Cooling Supply, Inc. ("Heating & Cooling"); Comfort Supply, Inc. ("Comfort Supply"); and Central Air Conditioning Distributors, Inc. ("Central Air Conditioning") (collectively, the "Distribution Operations"). The primary supplier to the Distribution Operations is Rheem Manufacturing Company ("Rheem"), one of the largest manufacturers of residential central air conditioners in the United States, based on the number of units sold.

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

The Company has acquired eight air conditioning distributors since 1989 when the Company began its acquisition strategy to establish a network of distribution branches across the sunbelt. 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 1995 revenues of approximately \$4 million.

H.B. Adams, Inc. - In March 1995, the Company acquired certain assets of H.B. Adams, Inc. (now operating as H.B. Adams Distributors, Inc.). 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. H.B. Adams had 1995 revenues of approximately \$20 million.

Environmental Equipment & Supplies, Inc. - In May 1995, the Company acquired certain assets of Environmental Equipment & Supplies, Inc., a wholesale distributor of air conditioning and heating equipment which sells to nearly 300 licensed air conditioning and heating contractors. Environmental Equipment operates from branches in Fort Smith and Jonesboro, Arkansas and had 1995 revenues of approximately \$6 million.

Central Air Conditioning Distributors, Inc. - In October 1995, the Company acquired certain assets of Central Air Conditioning Distributors, Inc., 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 and had 1995 revenues of approximately \$21 million.

In addition to distributing air conditioning and heating equipment, the Company also produces over 4,000 electronic and mechanical components for air conditioning, heating and refrigeration equipment through its manufacturing subsidiaries: Watsco Components, Inc., Rho Sigma, Inc. and Cam-Stat, Inc. (the "Manufacturing Operations"). These components are sold to over 5,000 wholesale distributors and original equipment manufacturers ("OEMs").

The Company also owns Dunhill Personnel System, Inc. ("Dunhill"), a national provider of permanent and temporary personnel services to business, professional and service organizations, government agencies, health care providers and other employers.

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

#### RECENT DEVELOPMENTS

On March 6, 1996, the Company completed a public offering in which it sold 1,570,000 shares of Common Stock resulting in net proceeds of approximately \$32.6 million. The Company intends to use approximately \$14 million of the proceeds to fund the pending acquisition of Three States Supply Company, Inc. discussed below.

Effective March 19, 1996, the Company and Rheem completed a transaction pursuant to a Stock Exchange Agreement and Plan of Reorganization (the "Exchange Agreement") whereby the Company acquired Rheem's minority interests in three of the Company's distribution subsidiaries. See "Relationship with Rheem Manufacturing Company" for further discussion.

The Company has signed a letter of intent for the purchase of the net assets and business of Three States Supply Company, Inc., a Memphis, Tennessee-based distributor of building materials used primarily in the heating and air conditioning industry. The completion of the transaction is subject to certain conditions and is expected to occur during April 1996. The purchase price, estimated at \$14 million, is subject to adjustment upon the completion of an audit of the net assets and will be funded from a portion of the proceeds from the sale of Watsco's Common Stock completed on March 6, 1996.

Also see "Liquidity and Capital Resources" in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company's Annual Report to Shareholders for the year ended December 31, 1995 (the "1995 Annual Report").

#### INDUSTRY SEGMENT INFORMATION

The Climate Control segment consists of the Distribution Operations and the Manufacturing Operations. The Distribution Operations distribute residential central air conditioners and related parts and supplies in Florida, California, Texas, Alabama, Arkansas, Arizona, Louisiana, Nevada, North Carolina and Latin America and South America. The Manufacturing Operations make components and equipment which are sold and distributed to the air conditioning, refrigeration and heating industry (see "Climate Control Segment").

In the Personnel Services segment, Dunhill and its subsidiaries provide temporary help and permanent placement services (see "Personnel Services Segment"). The Company also has certain employees and resources which provide services to each of these segments. Note 12 of Notes to Consolidated Financial Statements, included in the Company's 1995 Annual Report, incorporated herein by reference under Item 8, contains a table setting forth the revenues and operating income of the Company's two industry segments during the three years ended December 31, 1995, 1994 and 1993.

#### DESCRIPTION OF BUSINESS

##### 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 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 63% of the distribution operations' revenues for 1995. Sales of parts and supplies (currently numbering approximately 28,000 different inventory items) comprised the remaining portions of revenues. In 1995, purchases of Rheem products represented approximately 58% of the aggregate purchases of the distribution operations. 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's products and the ability of Rheem to continue to manufacture products that comply with laws relating to environmental and efficiency standards.

\* 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.

**DISTRIBUTION AND SALES** The Company operates from 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 need 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 branch nearest to the customer. The company has 111 commissioned salespeople who average 16 years of experience in the residential central air conditioning distribution industry.

**MARKETS** The Company has been granted exclusive rights under distribution agreements for Rheem brand-name products in each of the most significant market areas and many of the major metropolitan areas in the United States sunbelt including: Florida; the eastern half of Texas (including the Dallas, Houston, San Antonio and Austin metropolitan areas), southern and central California; Arizona; Nevada; western North Carolina (including the Charlotte metropolitan area) and additional territories in Louisiana; Alabama and Arkansas. The Company also has distribution rights for the Rheem brand name or Weatherking brand name (manufactured by Rheem) in substantially all of Central America, South America and the Caribbean.

**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 distribution branches. 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 and broad product lines.

**RELATIONSHIP WITH RHEEM MANUFACTURING COMPANY** The Company is Rheem's largest distributor and believes that it maintains a unique and mutually beneficial relationship with Rheem, one of the largest manufacturers of residential central air conditioning equipment in the United States. Rheem has a well-established reputation of producing high-quality, competitively priced products. The Company believes that Rheem's current product offerings, quality, serviceability and brand-name recognition allow the Company to operate favorably against its competitors. To maintain brand-name recognition, Rheem provides national advertising and participates with the Company in cooperative advertising programs and promotional incentives that are targeted to both contractors and homeowners. The Company estimates the replacement market currently accounts for approximately 65% of industry sales in the United States and expects this percentage to increase as units installed in the 1970s and 1980s wear out and get replaced or updated to more energy-efficient models. The Company believes Rheem's products have wide acceptance in the replacement market based on their high efficiency and low noise level -- two key homeowner considerations. Additionally, Rheem has demonstrated the flexibility to manufacture products to international specifications to meet export demands.

Rheem acquired minority ownership interests in Gemaire (20%), Comfort Supply (20%) and Heating & Cooling (50%) as a joint venture partner with the Company in the acquisition of each of these subsidiaries. In March 1996, the Company and Rheem restructured their relationship upon completing a transaction pursuant to a Stock Exchange Agreement and Plan of Reorganization (the "Exchange Agreement") whereby the Company acquired Rheem's minority ownership interests of these three subsidiaries in exchange for 964,361 shares of the Company's unregistered Common Stock. Following completion of this transaction, Gemaire, Comfort Supply and Heating & Cooling became wholly owned subsidiaries of the Company. Also, Rheem's Chief Executive Officer will become a member of the Company's Board of Directors.

The Exchange Agreement modified certain other agreements with respect to each of the distribution subsidiaries on terms that are favorable to the Company. Previous agreements between the Company and Rheem provided Rheem with the right to "call" from the Company and the Company with the right to "put" to Rheem the Company's ownership interests in Gemaire, Comfort Supply and Heating & Cooling during specified periods according to prescribed valuation formulas. Under the terms of the Exchange Agreement, the put/call provisions are effectively eliminated because the rights to "put" or "call" become exercisable primarily upon the occurrence of certain insolvency events.

The Company also has distribution agreements with Rheem. The distribution agreements of Gemaire, Comfort Supply and Heating & Cooling extend through 2006 with annual renewals thereafter. These distribution agreements contain provisions limiting the sale of products that are directly competitive with Rheem products. Based on the acceptance of other complimentary, non-competitive equipment products and the Company's additional focus on the sale of parts and supplies, the Company does not believe that such limitations have a material effect on its operations. Except for the limitations set forth in the distribution agreements of Gemaire, Comfort Supply and Heating & Cooling, the Company may distribute other manufacturers' lines of air conditioning equipment.

#### MANUFACTURING OPERATIONS

The Company's manufacturing operations are highly self-sufficient and include facilities for die-casting, stamping, screw machining, secondary metal working operations and a fully equipped tool room. The Company has not encountered significant problems in obtaining manufacturing materials, consisting primarily of metals and other raw materials, which are readily available from many suppliers.

**PRODUCTS** The Company produces over 4,000 electronic and mechanical components for air conditioning, heating and refrigeration equipment. Products include: components, such as line tap and specialty valves, motor compressor protectors, liquid sight glasses and 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.

**CUSTOMERS** The Company's OEM customers include most of the major residential air conditioning manufacturers such as Rheem, Carrier Air Conditioning, Inc., Inter-City Products Corporation and York International (through its Evcon subsidiary). Another significant OEM customer, RV Products, Inc., is the nation's largest manufacturer of air conditioning for recreational vehicles. The Company also sells to wholesale distributors who distribute the Company's products to the aftermarket. In 1995, the Company served over 5,000 domestic and international customers, with no single customer accounting for more than 1% of consolidated revenues.

**RESEARCH AND DEVELOPMENT** 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.

#### PERSONNEL SERVICES SEGMENT

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 businesses, professional and service organizations, government agencies, health care providers, and other employers. Dunhill's operations consist of 114 franchised permanent placement offices and 19 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 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 in the form of royalty fees and commissions from temporary help licensees and franchisees and permanent placement operations. 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.

#### OTHER INFORMATION

##### COMPETITION

All of the Company's businesses operate in highly competitive environments. The Company's distribution business competes with a number of distributors and also with air conditioner manufacturers who distribute a significant portion of their products through factory-owned distribution organizations. Many of the manufacturers which have distribution organizations are larger than the Company and have substantial financial resources. 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 substantial 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.

##### EMPLOYEES

The Climate Control segment employed 929 persons and the Personnel Services segment employed 91 persons as of March 21, 1996. The Company believes that its relations with these employees are good.

##### SEASONALITY

Sales of residential central air conditioners, heating equipment and parts and supplies manufactured and distributed by the Company have historically been seasonal. Demand related to the residential 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.

##### OTHER

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

#### ITEM 2. PROPERTIES



The Company's significant facilities are currently in the following locations:

<TABLE>

<CAPTION>

LOCATION -----	USE ---	SQUARE FOOTAGE -----	OWNED/ LEASED -----
<S>	<C>	<C>	<C>
Watsco:			
Coconut Grove, FL	Headquarters	3,137	Leased
Manufacturing Operations:			
Hialeah, FL	Manufacturing	90,000	Owned
Hialeah, FL	Manufacturing	36,000	Owned
Hialeah, FL	Manufacturing	12,000	Owned
Gemaire:			
Deerfield Beach, FL	Headquarters	10,768	Leased
Tampa, FL	Warehouse	50,000	Leased
Deerfield Beach, FL	Warehouse	48,500	Leased
Orlando, FL	Warehouse	30,000	Leased
Miami, FL	Warehouse	28,306	Leased
Clearwater, FL	Warehouse	22,000	Leased
Lakeland, FL	Warehouse	15,000	Leased
Mobile, AL	Warehouse	15,000	Leased
Perrine, FL	Warehouse	13,234	Leased
Riviera Beach, FL	Warehouse	12,800	Leased
Lakeland, FL	Warehouse	12,000	Leased
Pensacola, FL	Warehouse	12,000	Leased
Hollywood, FL	Warehouse	11,400	Leased
Tampa, FL	Warehouse	11,000	Leased
Daytona Beach, FL	Warehouse	10,000	Leased
Ft. Myers, FL	Warehouse	10,000	Leased
Melbourne, FL	Warehouse	10,000	Leased
New Port Richey, FL	Warehouse	10,000	Leased
Ocala, FL	Warehouse	10,000	Leased
St. Petersburg, FL	Warehouse	10,000	Leased
Vero Beach, FL	Warehouse	10,000	Leased
Jacksonville, FL	Warehouse	9,790	Leased
Sarasota, FL	Warehouse	8,578	Leased
Ft. Walton Beach, FL	Warehouse	8,000	Leased
Tallahassee, FL	Warehouse	8,000	Leased
Panama City, FL	Warehouse	7,500	Leased
Lakeland, FL	Warehouse	7,200	Leased
Sebring, FL	Warehouse	7,000	Leased
Winter Haven, FL	Warehouse	7,000	Leased
Murdock, FL	Warehouse	6,300	Leased
St. Petersburg, FL	Warehouse	5,000	Leased
Heating & Cooling:			
San Diego, CA	Headquarters	7,200	Leased
Modesto, CA	Warehouse	60,000	Leased
Phoenix, AZ	Warehouse	30,000	Leased
Fresno, CA	Warehouse	25,079	Leased
Orange, CA	Warehouse	25,050	Leased
San Diego, CA	Warehouse	25,000	Leased

LOCATION -----	USE ---	SQUARE FOOTAGE -----	OWNED/ LEASED -----
Heating & Cooling (cont.):			
Riverside, CA	Warehouse	24,940	Leased
Sacramento, CA	Warehouse	24,000	Leased
Van Nuys, CA	Warehouse	22,100	Leased
Santa Clara, CA	Warehouse	20,000	Leased

Las Vegas, NV	Warehouse	19,600	Leased
Escondido, CA	Warehouse	15,000	Leased
Long Beach, CA	Warehouse	15,000	Leased
Tucson, AZ	Warehouse	14,500	Leased
Oxnard, CA	Warehouse	14,344	Leased
El Monte, CA	Warehouse	11,200	Leased
Yuma, AZ	Warehouse	3,800	Leased
Comfort Supply:			
Houston, TX	Headquarters/Warehouse	38,780	Leased
Carrollton, TX	Warehouse	35,000	Leased
North Little Rock, AR	Warehouse	25,000	Leased
Bryan, TX	Warehouse	21,750	Leased
Harlingen, TX	Warehouse	17,000	Leased
Killeen, TX	Warehouse	17,000	Leased
Shreveport, LA	Warehouse	16,000	Leased
Austin, TX	Warehouse	15,700	Leased
Haltom City, TX	Warehouse	15,000	Leased
Houston, TX	Warehouse	15,000	Leased
Longview, TX	Warehouse	15,000	Owned
Houston, TX	Warehouse	14,800	Leased
San Antonio, TX	Warehouse	14,000	Leased
Houston, TX	Warehouse	12,000	Leased
Dallas, TX	Warehouse	11,250	Leased
Stafford, TX	Warehouse	5,500	Leased
Jonesboro, AR	Warehouse	5,000	Leased
Texarkana, TX	Warehouse	3,800	Leased
Monroe, LA	Warehouse	3,500	Leased
Central Air Conditioning:			
Winston-Salem, NC	Headquarters/Warehouse	12,500	Leased
Hickory, NC	Warehouse	22,806	Leased
Greensboro, NC	Warehouse	20,000	Leased
Charlotte, NC	Warehouse	19,000	Leased
Winston-Salem, NC	Warehouse	14,500	Leased
Asheville, NC	Warehouse	10,000	Leased
Dunhill:			
Woodbury, NY	Headquarters	8,500	Leased

</TABLE>

The Company believes that its facilities are well maintained and adequate to meet its needs.

### ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of the Company's security holders during the fourth quarter of the year ended December 31, 1995.

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

Page 28 of the 1995 Annual Report contains "Information on Common Stock", which identifies the market on which the Registrant's Common Stocks are being traded and contains the high and low sales prices and dividend information for the years ended December 31, 1995, 1994 and 1993 and is incorporated herein by reference.

ITEM 6. SELECTED FINANCIAL DATA

Page 8 of the Company's 1995 Annual Report contains "Selected Consolidated Financial Data" and is incorporated herein by reference.

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

Pages 9 through 11 of the Company's 1995 Annual Report contain "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Pages 12 through 25 of the Company's 1995 Annual Report contain the Consolidated Financial Statements of the Company at December 31, 1995 and 1994 and for the years ended December 31, 1995, 1994 and 1993 and is incorporated herein by reference. The Company's unaudited quarterly financial data for the years ended December 31, 1995, 1994 and 1993 is included in the 1995 Annual Report on page 27. The Report of Independent Certified Public Accountants for the years ended December 31, 1995, 1994 and 1993 is included in the Company's 1995 Annual Report on page 26.

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

None.

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PART III

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

PART IV

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

Financial Statements

- (a) (i) Data incorporated by reference from the attached  
1995 Annual Report of Watsco, Inc.:

Report of Independent Certified Public Accountants

Consolidated Statements of Income for the years  
ended December 31, 1995, 1994 and 1993

Consolidated Statements of Shareholders' Equity  
for the years ended December 31, 1995, 1994 and 1993

Consolidated Statements of Cash Flows for the  
years ended December 31, 1995, 1994 and 1993

Notes to Consolidated Financial Statements

<TABLE>  
<CAPTION>

	PAGE NO.
<S>	<C>
Financial Statement Schedules	
(a) (ii) Data included herein:	
Report of Independent Certified Public Accountants on Schedules	16
Consolidated financial statement schedules for the years ended December 31, 1995, 1994 and 1993	
I. Condensed financial information of Registrant	17-19
II. Valuation and qualifying accounts	20
All other schedules have been omitted since the required information is not present, or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or notes thereto.	

</TABLE>

- (a) (iii) Exhibits:
- 3.1 Company's Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated June 30, 1995 and incorporated herein by reference).
  - 3.2 Company's Amended Bylaws (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1985 and incorporated herein by reference).
  - 4.1 Indenture dated as of September 12, 1986 between the Company and Southeast Bank, N.A. (filed as Exhibit 4 to the Company's Registration Statement on Form S-3 (No. 33-7758) and incorporated herein by reference).
  - 4.2 Specimen form of Class B Common Stock Certificate (filed as Exhibit 4.6 to the Company's Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference).
  - 4.3 Specimen form of Common Stock Certificate (filed as Exhibit 4.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).
  - 10.1 Rheem Manufacturing Company Distributor Agreement by and between Rheem Manufacturing Company and Gemaire Distributors, Inc., dated December 30, 1988 (filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988 and incorporated herein by reference).

- 10.2 Amendment dated January 4, 1991 to Distribution Agreement dated December 30, 1990 between Rheem Manufacturing Company and Gemaire Distributors, Inc. (filed as Exhibit 10.14 to the Company's Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference).
- 10.3 Distributor Agreement between Heating & Cooling Supply, Inc. and Rheem Manufacturing, Inc. dated October 15, 1990 (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990 and incorporated herein by reference).
- 10.4 Rheem Manufacturing Company Distributor Agreement by and between Rheem Manufacturing Company and Comfort Supply, Inc. (filed as Exhibit 10.20 to the Company's Form 8-K dated May 26, 1993 and incorporated herein by reference).
- 10.5 Preferred Stock Purchase Agreement between Heating & Cooling Supply, Inc. and Rheem Manufacturing Company dated June 10, 1993 (filed as Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q dated September 30, 1993 and incorporated herein by reference).
- 10.6 Line of Credit Agreement by and between Comfort Supply, Inc. and NationsBank of Florida, N.A. dated September 23, 1993 (filed as Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q dated September 30, 1993 and incorporated herein by reference).
- 10.7 Amended and Restated Revolving Credit and Term Loan Agreement by and between NationsBank of Florida, N.A. and Gemaire Distributors, Inc. dated March 10, 1995 (filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).

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- 10.8 Line of Credit Agreement between Heating & Cooling Supply, Inc. and Bank of America National Trust and Savings Association dated September 28, 1995 (filed as Exhibit 10.26 to the Company's Quarterly Report on Form 10-Q dated September 30, 1995 and incorporated herein by reference).
- 10.9 Revolving Credit Agreement dated October 26, 1995 by and between CAC Acquisition, Inc. and NationsBank of Florida, N.A. (filed as Exhibit 10.27 to the Company's Registration Statement on Form S-3 (No. 333-00371) and incorporated herein by reference).
- 10.10 Stock Exchange Agreement and Plan of Reorganization dated February 6, 1996 by and between Watsco, Inc. and Rheem Manufacturing Company (filed as Exhibit 10.29 to the Company's Registration Statement on Form S-3 (No. 333-00371) and incorporated herein by reference).

<TABLE>  
<CAPTION>

PAGE NO.

- |       |   |       |
|-------|---|-------|
| <S>   | <C>   | <C>   |
| 10.11 | Amendment dated February 6, 1996 to Distributor Agreement dated December 30, 1998 between Rheem Manufacturing Company and Gemaire Distributors, Inc.  | 22-24 |
| 10.12 | Amendment dated February 6, 1996 to Distributor Agreement dated May 25, 1993 (and as amended by Supplemental Agreement dated as of June 1, 1995) between Rheem Manufacturing Company and Comfort Supply, Inc. | 25-27 |

10.13	Amendment dated February 6, 1996 to Distributor Agreement dated October 15, 1990 between Rheem Manufacturing Company and Heating & Cooling Supply, Inc.	28-30
11.	Computation of Earnings Per Share for the years ended December 31, 1995, 1994 and 1993	31
13.	1995 Annual Report to Shareholders. With the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 1995 Annual Report to Shareholders is not deemed filed as part of this Form 10-K.	32-55
22.	Subsidiaries of the Registrant	56
23.	Consent of Independent Certified Public Accountants Management Contracts and Compensatory Plans or Arrangements:	57
27.	Financial Data Schedule (for SEC use only)	58
10.14	1983 Executive Stock Option Plan of Watsco, Inc. (filed as Exhibit 10.3 to the Company's Registration Statement on Form S-8 (Registration No. 33-6229) and incorporated herein by reference).	
10.15	Key Executive Deferred Compensation Agreement dated January 31, 1983, between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.8 to the Company's Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference).	

</TABLE>

10.16	Watsco, Inc. Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10.23 to the Company's Quarterly Report on Form 10-Q dated June 30, 1993 and incorporated herein by reference).
10.17	Watsco, Inc. Amended and Restated Profit Sharing Retirement Plan and Trust Agreement dated October 21, 1994 (filed as Exhibit 10.25 to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 and incorporated herein by reference).

(b) Reports on Form 8-K

None.

#### REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULES

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

We have audited in accordance with generally accepted auditing standards, the consolidated financial statements included in Watsco, Inc.'s annual report to shareholders incorporated by reference in this Form 10-K, and have issued our report thereon dated March 29, 1996. Our audits were made for the purpose of forming an opinion on those statements taken as a whole. The accompanying Schedules I and II are the responsibility of the Company's management and are presented for purposes of complying with the Securities and Exchange

Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Miami, Florida,  
March 29, 1996.

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WATSCO, INC.  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
(In thousands of dollars)

<TABLE>		
<CAPTION>		
(a) Balance Sheets	December 31,	
-----		
	1995	1994
	-----	-----
<S>	<C>	<C>
Assets		
Current assets:		
Cash and cash equivalents	\$ 811	\$ 259
Marketable securities	267	3,227
Other current assets	520	415
	-----	-----
Total current assets	1,598	3,901
Investments in and net advances to subsidiaries	51,301	45,139
Property, plant and equipment, at cost less accumulated depreciation	2,084	1,743
Other assets	3,154	3,214
	-----	-----
	\$58,137	\$53,997
	=====	=====
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of bank and other debt	\$ 1,666	\$ 1,174
Accounts payable and accrued liabilities	1,002	3,509
	-----	-----
Total current liabilities	2,668	4,683
Bank and other debt	1,495	837
Subordinated debentures	-	1,505
Deferred income taxes	218	156
Shareholders' equity:		
Common stock	3,141	3,075
Paid-in capital	19,479	18,565
Retained earnings	31,136	25,176
	-----	-----

Total shareholders' equity	53,756	46,816
	-----	-----
	\$58,137	\$53,997
	=====	=====

</TABLE>

(Continued)

17

WATSCO, INC.  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
For the Years Ended December 31,

(In thousands of dollars)

(Continued)

<TABLE>

<CAPTION>

(b) Statements of Income

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>
Equity in net income of subsidiaries	\$ 8,641	\$ 7,721	\$ 6,169
Investment income, net	185	127	361
General and administrative expenses	(1,761)	(2,574)	(1,621)
Interest expense	(258)	(299)	(425)
	-----	-----	-----
Income before taxes	6,807	4,975	4,484
Income tax benefit (A)	443	787	557
	-----	-----	-----
Net income	\$ 7,250	\$ 5,762	\$ 5,041
	=====	=====	=====

</TABLE>

(A) Income taxes are recorded at statutory rates receiving benefit for the dividends received deduction and tax free interest.

(Continued)

18

WATSCO, INC.  
SCHEDULE I - CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
For the Years Ended December 31,

(In thousands of dollars)

(Continued)

<TABLE>

<CAPTION>

(c) Statements of Cash Flows

	1995	1994	1993
	-----	-----	-----
<S>	<C>	<C>	<C>



Cash flows from operating activities:			
Net Income	\$ 7,250	\$ 5,762	\$ 5,041
Adjustments to reconcile net income to			
net cash provided by (used in) operating activities-			
Equity in net income of subsidiaries, net of cash			
dividends of \$2,599 in 1995, \$4,678			
in 1994 and \$1,587 in 1993	(6,042)	(3,043)	(4,582)
Depreciation and amortization	39	32	58
Net investment gains	(27)	(6)	(161)
Deferred tax provision (benefit)	62	(486)	(508)
Noncash stock contribution to 401(k) plan	149	137	111
Changes in operating assets and liabilities:			
Other current assets	(105)	115	(151)
Accounts payable and accrued liabilities	(2,507)	1,329	(369)
Other, net	67	(460)	(256)
	-----	-----	-----
Net cash provided by (used in) operating activities	(1,114)	3,380	(817)
	-----	-----	-----
Cash flows from investing activities:			
Cash used in acquisition in 1995 and 1993	(1)	-	(3,418)
Net proceeds from sales (purchases) of			
marketable securities	2,960	(2,258)	(906)
Net advances from (to) subsidiaries	(119)	659	(2,989)
Other, net	(360)	(510)	(318)
	-----	-----	-----
Net cash provided by (used in) investing activities	2,480	(2,109)	(7,631)
	-----	-----	-----
Cash flows from financing activities:			
Net borrowings (repayments) of long-term obligations	(191)	17	(303)
Net proceeds from issuances of common stock	667	138	9,680
Cash dividends paid on common stock	(1,160)	(1,037)	(887)
Other, net	(130)	(130)	(70)
	-----	-----	-----
Net cash provided by (used in) financing activities	(814)	(1,012)	8,420
	-----	-----	-----
Net increase (decrease) in cash and cash equivalents	552	259	(28)
Cash and cash equivalents at beginning of year	259	-	28
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 811	\$ 259	\$ -
	=====	=====	=====
Supplemental disclosures:			
Net income tax payments	\$ 4,522	\$ 3,493	\$ 4,350
Interest paid	264	285	432

</TABLE>

In 1995, 1994 and 1993, \$164,000, \$192,000 and \$2,607,000, respectively, of 10% Convertible Subordinated Debentures due 1996 were converted into Common Stock.

In May 1995, the Company effected a three-for-two stock split in the form of a 50% stock dividend for both classes of its common stock which had the effect of increasing the Company's common stock account by \$1,024,000 and reducing paid-in capital and retained earnings by \$371,000 and \$653,000, respectively.

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

BALANCE, December 31, 1992	\$2,767
Allowances from acquisitions	583
Additions charged to costs and expenses	315
Recoveries	73
Write-offs	(726)
	-----
BALANCE, December 31, 1993	3,012
Additions charged to costs and expenses	597
Recoveries	44
Write-offs	(972)
	-----
BALANCE, December 31, 1994	2,681
Allowances from acquisitions	453
Additions charged to costs and expenses	1,197
Recoveries	89
Write-offs	(1,319)
	-----
BALANCE, December 31, 1995	\$3,101
	=====

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

WATSCO, INC.

March 29, 1996 By: /s/ Albert H. Nahmad  
-----  
Albert H. Nahmad, President

March 29, 1996 By: /s/ Ronald P. Newman  
-----  
Ronald P. Newman, Vice President

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

<TABLE>

<CAPTION>

SIGNATURE -----	TITLE -----	DATE ----
<S> /s/ Albert H. Nahmad ----- Albert H. Nahmad	<C> Chairman of the Board and President (principal executive officer)	<C> March 29, 1996
/s/ Ronald P. Newman ----- Ronald P. Newman	Vice President of Finance, Secretary and Treasurer (principal financial and accounting officer)	March 29, 1996
/s/ D.A. Coape-Arnold ----- D.A. Coape-Arnold	Director	March 29, 1996
/s/ David B. Fleeman ----- David B. Fleeman	Director	March 29, 1996
/s/ James S. Grien	Director	March 29, 1996

----- James S. Grien  /s/ Paul F. Manley ----- Paul F. Manley	Director	March 29, 1996
----- /s/ Bob L. Moss ----- Bob L. Moss	Director	March 29, 1996
----- /s/ Roberto Motta ----- Roberto Motta	Director	March 29, 1996
----- /s/ Alan H. Potamkin ----- Alan H. Potamkin	Director	March 29, 1996

</TABLE>

THIS AMENDMENT AGREEMENT made as of the 6th day of February 1996 by and between Rheem Manufacturing Company, Air Conditioning Division (hereinafter referred to as "Rheem") and Gemaire Distributors, Inc. (hereinafter referred to as "Gemaire").

W I T N E S S E T H :

WHEREAS, Rheem and Gemaire are parties to a distributor agreement dated the 30th day of December, 1988 (the "Agreement"); and

WHEREAS, Rheem and Gemaire agree to amend the Agreement on the terms and conditions hereinafter provided.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants hereinafter set forth together with other good and valuable consideration, receipt hereof is hereby by each party acknowledged, the parties hereto covenant and agree, each with the other, as follows:

FIRST: The Agreement shall be amended by deleting Article 3 in its entirety and inserting the following in lieu thereof:

"3. TERM. Unless otherwise sooner terminated as provided herein, this Agreement shall terminate on February 1, 2006 , and shall be automatically extended for additional one (1) year periods on an "evergreen" basis.

SECOND: The following shall be inserted as Section 10 of the Agreement as follows:

"10. CERTAIN OTHER MODIFICATIONS, DISPUTE RESOLUTION PROCEDURES. Upon the termination of the "Put" and "Call" obligations contained in Section 3 of the Subscription and Shareholders' Agreement dated as of the 30th day of December, 1988 among W. R. Acquisition Inc., Watsco, Inc. ("Watsco") and Rheem Manufacturing Company ("Rheem") and Section 5.2 of a Stock Exchange Agreement dated as of February 1, 1996 between Watsco and Rheem, Gemaire and Rheem agree that the Agreement shall be deemed to be modified and shall be modified as follows:

10.1 The Agreement shall terminate in the event that Rheem impedes the long-term competitiveness of Gemaire in terms of quality, price or delivery as determined in accordance with the dispute resolution procedures which are outlined and provided for in Section 10.3 herein.

10.2 "Specific performance" shall be available and permitted in the event of any irreconcilable violation of the Agreement.

10.3 The following dispute resolution procedures shall govern, in the order of priority set forth below, in the event there is an irreconcilable dispute between Watsco and Rheem with respect to the Agreement.

(a) The chief executive officers of Watsco and Rheem shall attempt in good faith, to resolve the dispute during the ten (10) day period following the date on which such dispute becomes irreconcilable.

(b) In the event that the chief executive officers of Watsco and Rheem are unable to resolve the dispute within such ten (10) day period, the dispute shall be submitted to an independent third party mediator to be agreed upon by the chief executive officers of Watsco and Rheem (or the managing partner of the Washington, D.C. offices of Price Waterhouse and Company or another "big six" accounting firm that is not used by or associated with either Rheem or Watsco in the event that the chief executive officers of Watsco and Rheem are unable to agree upon an independent third party mediator).

(c) In the event that Watsco or Rheem fails to implement the decision made by the mediator in respect of the dispute within ten (10) days of such decision, the other party shall have the right to a confession of judgment to implement the decision of the mediator. Each of Watsco and Rheem hereby agree to take any and all actions, and to cooperate with the other in any reasonably requested manner, necessary to obtain any such confession of judgment."

THIRD: Except as amended, modified or revised hereby, all provisions of the Agreement shall remain in full force and effect.

2

IN WITNESS HEREOF, the parties hereto have caused this Amendment Agreement to be executed as of the date first written above.

RHEEM MANUFACTURING COMPANY  
Air Conditioning Division

BY: /s/ ROSS W. WILLIS

-----

President

ATTEST:

/s/ VINCENT J. DEBO

-----

Assistant Secretary

GEMAIRE DISTRIBUTORS, INC.

BY: /s/ KENNETH A. PERKINS

-----

Ken Perkins  
President

ATTEST:

/s/ RONALD P. NEWMAN

-----

Secretary

THIS AMENDMENT AGREEMENT made as of the 6th day of February 1996 by and between Rheem Manufacturing Company, Air Conditioning Division (hereinafter referred to as "Rheem") and Comfort Supply, Inc. (hereinafter referred to as "Comfort").

W I T N E S S E T H :

WHEREAS, Rheem and Comfort are parties to a distributor agreement dated the 25th day of May, 1993 (and as amended by Supplemental Agreement dated as of June 1, 1995 (collectively, the "Agreement"); and

WHEREAS, Rheem and Comfort agree to amend the Agreement on the terms and conditions hereinafter provided.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants hereinafter set forth together with other good and valuable consideration, receipt hereof is hereby by each party acknowledged, the parties hereto covenant and agree, each with the other, as follows:

FIRST: The Agreement shall be amended by deleting Article 3 in its entirety and inserting the following in lieu thereof:

"3. TERM. Unless otherwise sooner terminated as provided herein, this Agreement shall terminate on February 1, 2006 , and shall be automatically extended for additional one (1) year periods on an "evergreen" basis.

SECOND: The following shall be inserted as Section 10 of the Agreement as follows:

"10. CERTAIN OTHER MODIFICATIONS, DISPUTE RESOLUTION PROCEDURES. Upon the termination of the "Put" and "Call" obligations contained in Section 3 of the Subscription and Shareholders' Agreement dated as of the 25th day of May, 1993 among CSI Acquisition Inc., Watsco, Inc. ("Watsco") and Rheem Manufacturing Company ("Rheem") and Section 5.2 of a Stock Exchange Agreement dated as of February 1, 1996 between Watsco and Rheem, Comfort and Rheem agree that the Agreement shall be deemed to be modified and shall be modified as follows:

10.1 The Agreement shall terminate in the event that Rheem impedes the long-term competitiveness of Comfort in terms of quality, price or delivery as determined in accordance with the dispute resolution procedures which are outlined and provided for in Section 10.3 herein.

10.2 "Specific performance" shall be available and permitted in the event of any irreconcilable violation of the Agreement.

10.3 The following dispute resolution procedures shall govern, in the

order of priority set forth below, in the event there is an irreconcilable dispute between Watsco and Rheem with respect to the Agreement.

(a) The chief executive officers of Watsco and Rheem shall attempt in good faith, to resolve the dispute during the ten (10) day period following the date on which such dispute becomes irreconcilable.

(b) In the event that the chief executive officers of Watsco and Rheem are unable to resolve the dispute within such ten (10) day period, the dispute shall be submitted to an independent third party mediator to be agreed upon by the chief executive officers of Watsco and Rheem (or the managing partner of the Washington, D.C. offices of Price Waterhouse and Company or another "big six" accounting firm that is not used by or associated with either Rheem or Watsco in the event that the chief executive officers of Watsco and Rheem are unable to agree upon an independent third party mediator).

(c) In the event that Watsco or Rheem fails to implement the decision made by the mediator in respect of the dispute within ten (10) days of such decision, the other party shall have the right to a confession of judgment to implement the decision of the mediator. Each of Watsco and Rheem hereby agree to take any and all actions, and to cooperate with the other in any reasonably requested manner, necessary to obtain any such confession of judgment."

THIRD: Except as amended, modified or revised hereby, all provisions of the Agreement shall remain in full force and effect.

2

IN WITNESS HEREOF, the parties hereto have caused this Amendment Agreement to be executed as of the date first written above.

RHEEM MANUFACTURING COMPANY  
Air Conditioning Division

BY: /s/ ROSS W. WILLIS

-----  
President

ATTEST:

/s/ VINCENT J. DEBO

-----  
Assistant Secretary

COMFORT SUPPLY, INC.

BY: /s/ ERIC A. YOUNG

-----  
President

ATTEST:



/s/ RONALD P. NEWMAN

-----

Secretary

THIS AMENDMENT AGREEMENT made as of the 6th day of February 1996 by and between Rheem Manufacturing Company, Air Conditioning Division (hereinafter referred to as "Rheem") and Heating & Cooling Supply, Inc. (hereinafter referred to as "Heating & Cooling").

W I T N E S S E T H :

WHEREAS, Rheem and Heating & Cooling are parties to a distributor agreement dated the 15th day of October, 1990 (the "Agreement"); and

WHEREAS, Rheem and Heating & Cooling agree to amend the Agreement on the terms and conditions hereinafter provided.

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants hereinafter set forth together with other good and valuable consideration, receipt hereof is hereby by each party acknowledged, the parties hereto covenant and agree, each with the other, as follows:

FIRST: The Agreement shall be amended by deleting Article 3 in its entirety and inserting the following in lieu thereof:

"3. TERM. Unless otherwise sooner terminated as provided herein, this Agreement shall terminate on February 1, 2006 , and shall be automatically extended for additional one (1) year periods on an "evergreen" basis.

SECOND: The following shall be inserted as Section 10 of the Agreement as follows:

"10. CERTAIN OTHER MODIFICATIONS, DISPUTE RESOLUTION PROCEDURES. Upon the termination of the "Put" and "Call" obligations contained in Section 3 of the Subscription and Shareholders' Agreement dated as of the 14th day of October, 1990 among MCS Acquisition Inc., Watsco, Inc. ("Watsco") and Rheem Manufacturing Company ("Rheem") and Section 5.2 of a Stock Exchange Agreement dated as of February 1, 1996 between Watsco and Rheem, Heating & Cooling and Rheem agree that the Agreement shall be deemed to be modified and shall be modified as follows:

10.1 The Agreement shall terminate in the event that Rheem impedes the long-term competitiveness of Heating & Cooling in terms of quality, price or delivery as determined in accordance with the dispute resolution procedures which are outlined and provided for in Section 10.3 herein.

10.2 "Specific performance" shall be available and permitted in the event of any irreconcilable violation of the Agreement.

10.3 The following dispute resolution procedures shall govern, in the

order of priority set forth below, in the event there is an irreconcilable dispute between Watsco and Rheem with respect to the Agreement.

(a) The chief executive officers of Watsco and Rheem shall attempt in good faith, to resolve the dispute during the ten (10) day period following the date on which such dispute becomes irreconcilable.

(b) In the event that the chief executive officers of Watsco and Rheem are unable to resolve the dispute within such ten (10) day period, the dispute shall be submitted to an independent third party mediator to be agreed upon by the chief executive officers of Watsco and Rheem (or the managing partner of the Washington, D.C. offices of Price Waterhouse and Company or another "big six" accounting firm that is not used by or associated with either Rheem or Watsco in the event that the chief executive officers of Watsco and Rheem are unable to agree upon an independent third party mediator).

(c) In the event that Watsco or Rheem fails to implement the decision made by the mediator in respect of the dispute within ten (10) days of such decision, the other party shall have the right to a confession of judgment to implement the decision of the mediator. Each of Watsco and Rheem hereby agree to take any and all actions, and to cooperate with the other in any reasonably requested manner, necessary to obtain any such confession of judgment."

THIRD: Except as amended, modified or revised hereby, all provisions of the Agreement shall remain in full force and effect.

2

IN WITNESS HEREOF, the parties hereto have caused this Amendment Agreement to be executed as of the date first written above.

RHEEM MANUFACTURING COMPANY  
Air Conditioning Division

BY: /s/ ROSS W. WILLIS

-----

President

ATTEST:

/s/ VINCENT J. DEBO

-----

Assistant Secretary

HEATING & COOLING SUPPLY, INC.

BY: /s/ DONALD H. HUSLAGE

-----

President

ATTEST:

/s/ RONALD P. NEWMAN

-----

Secretary

WATSCO, INC. AND SUBSIDIARIES  
 COMPUTATION OF EARNINGS PER SHARE  
 For the Years Ended December 31,  
 (In thousands of dollars, except share data)

	1995	1994 (1)	1993 (1)
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Income	\$7,250	\$5,762	\$5,041
Less subsidiary preferred stock dividend	(130)	(130)	(70)
	-----	-----	-----
Income applicable to common stock for primary earnings per share	7,120	5,632	4,971
Add interest expense, net of income tax effects, attributable to assumed conversion of convertible debentures	108	121	206
	-----	-----	-----
Income applicable to common stock for fully diluted earnings per share	\$7,228	\$5,753	\$5,177
	=====	=====	=====
Weighted average common shares outstanding	6,197,297	6,107,275	5,744,052
Dilutive stock options and warrant	384,952	218,853	124,530
	-----	-----	-----
Shares for primary earnings per share	6,582,249	6,326,128	5,868,582
Assumed conversion of debentures	240,522	267,561	470,461
Additional dilution of stock options and warrant	147,833	52,573	-
	-----	-----	-----
Shares for fully diluted earnings per share	6,970,604	6,646,262	6,339,043
	=====	=====	=====
Net income per primary share	\$1.08	\$.89	\$.85
	=====	=====	=====
Net income per fully diluted share	\$1.04	\$.87	\$.82
	=====	=====	=====

</TABLE>

(1) The share amounts for 1994 and 1993 have been restated to reflect a three-for-two stock split effected in the form of a 50% dividend paid by the Company on May 15, 1995.

<TABLE>  
<CAPTION>

WATSCO, INC. AND SUBSIDIARIES  
SELECTED CONSOLIDATED FINANCIAL DATA - FIVE YEAR SUMMARY

YEARS ENDED DECEMBER 31, (IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)	1995	1994	1993 (1)	1992	1991
<S>	<C>	<C>	<C>	<C>	<C>
OPERATIONS					
Revenues	\$331,008	\$283,731	\$230,656	\$194,633	\$169,318
Income before income taxes and minority interests	\$ 14,070	\$ 12,028	\$ 10,147	\$ 7,134	\$ 4,973
Income taxes	(5,234)	(4,630)	(3,819)	(2,746)	(1,973)
Minority interests	(1,586)	(1,636)	(1,287)	(1,470)	(1,010)
Net income	\$ 7,250	\$ 5,762	\$ 5,041	\$ 2,918	\$ 1,990
SHARE DATA (2)					
Net income per share:					
Primary	\$1.08	\$ .89	\$ .85	\$ .70	\$ .50
Fully diluted	1.04	.87	.82	.64	.48
Cash dividends declared per share:					
Common Stock	\$ .19	\$ .17	\$ .16	\$ .15	\$ .22
Class B Common Stock	.19	.17	.16	.14	.20
Common stock outstanding	6,282,217	6,150,735	6,084,576	4,397,137	3,920,308
BALANCE SHEET INFORMATION					
Total assets	\$144,884	\$119,664	\$109,685	\$ 81,138	\$ 81,767
Long-term obligations:					
Bank and other debt	\$ 3,818	\$ 2,719	\$ 3,672	\$ 3,979	\$ 4,619
Subordinated notes	2,500	2,500	2,500	5,500	5,500
Convertible subordinated debentures	-	1,505	1,676	4,060	4,711
	\$ 6,318	\$ 6,724	\$ 7,848	\$ 13,539	\$ 14,830
Shareholders' equity	\$ 53,756	\$ 46,816	\$ 41,754	\$ 25,272	\$ 20,832

</TABLE>

- (1) AMOUNTS FOR 1993 INCLUDE THE NON-RECURRING RECEIPT OF INSURANCE PROCEEDS FOR BUSINESS INTERRUPTION CLAIMS FOLLOWING HURRICANE ANDREW, WHICH HAD THE EFFECT OF INCREASING INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS BY \$1,130,000 AND NET INCOME BY \$706,000. EXCLUDING THIS ITEM, FULLY DILUTED EARNINGS PER SHARE WAS \$.71 (\$.73 PRIMARY).
- (2) SHARE DATA FOR YEARS PRIOR TO 1992 INCLUDES THE EFFECT OF A 5% STOCK DIVIDEND PAID IN 1992. SHARE DATA FOR YEARS PRIOR TO 1995 ALSO INCLUDES THE EFFECT OF A THREE-FOR-TWO STOCK SPLIT EFFECTED MAY 15, 1995.

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

RESULTS OF OPERATIONS

The following table presents certain items of the Company's consolidated financial statements for the three years ended December 31, 1995, 1994 and 1993, expressed as a percentage of total revenues:

<TABLE>  
<CAPTION>

	1995	1994	1993 (1)
<S>	<C>	<C>	<C>
Total revenues	100.0%	100.0%	100.0%
Cost of sales and direct service expenses	77.9	77.7	77.5

Gross profit	22.1	22.3	22.5
Selling, general and administrative expenses	16.7	17.0	17.6
Operating income	5.4	5.3	4.9
Investment income, net	.1	-	.2
Interest expense	1.2	1.1	1.2
Income taxes	1.6	1.6	1.4
Minority interests	.5	.6	.6
Net income	2.2%	2.0%	1.9%

</TABLE>

(1) EXCLUDES NON-RECURRING INCOME FROM THE RECEIPT OF INSURANCE PROCEEDS RELATED TO HURRICANE ANDREW.

The following narratives include the results of operations of wholesale distributors of air conditioners and related parts and supplies acquired during 1993 and 1995: Comfort Supply, Inc., acquired in May 1993; Air Conditioning Sales, Inc., acquired in June 1993; Airite, Inc., acquired in February 1995; H.B. Adams, Inc., acquired in March 1995; Environmental Equipment & Supplies, Inc., acquired in May 1995 and Central Air Conditioning Distributors, Inc., acquired in October 1995. The acquisitions were accounted for under the purchase method of accounting and, accordingly, the results of their operations have been included in the consolidated results of the Company beginning on their respective dates of acquisition.

#### COMPARISON OF YEAR ENDED DECEMBER 31, 1995 WITH YEAR ENDED DECEMBER 31, 1994

Revenues in 1995 increased \$47.3 million, or 17%, over 1994. The distribution subsidiaries' revenues increased \$46.4 million, or 20%. Excluding the effect of acquisitions, revenues for the distribution subsidiaries increased \$18.8 million, or 8%. This increase in sales was mainly due to increased sales of replacement air conditioners in Florida and Texas. Revenues in the Company's manufacturing operations decreased \$874,000, or 4%, primarily due to lower sales to original equipment manufacturers (OEMs) caused by higher levels of inventory held by distributors during the year. Revenues in the personnel services operations increased \$1.8 million, or 6%, reflecting higher demand for temporary help services and greater customer acceptance of new product offerings such as professional staffing and technical temporaries.

Gross profit in 1995 increased \$10.1 million, or 16%, over the prior year. Excluding the effect of acquisitions, gross profit increased \$3.7 million, or 6%, primarily as a result of the increase in revenues described above. Gross profit margin decreased from 22.3% in 1994 to 22.1% in 1995 with acquisitions having no impact 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.

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Selling, general and administrative expenses in 1995 increased \$7.1 million, or 15%, over 1994 primarily due to selling and delivery costs related to increased sales. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$2.5 million, or 5%, also due to revenue increases. Selling, general and administrative expenses as a percent of revenues decreased to 16.7% in 1995 from 17.0% 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 in 1995 increased \$1.1 million, or 34%, over 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 effects of acquisitions, interest expense increased \$471,000, or 15%, primarily due to higher average monthly borrowings and higher interest rates.

The effective income tax rate decreased to 37.2% in 1995 compared to 38.5% in the prior year. The decrease was primarily the result of the proportionately larger share of taxable income generated in lower tax rate states in 1995 compared to 1994.

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

Revenues in 1994 increased \$53.1 million, or 23%, over 1993. 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 costs caused by increased sales. As a percentage of revenues, selling, general and administrative expenses 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. At December 31, 1995, the Company's subsidiaries had aggregate borrowing commitments from lenders of \$72.0 million, of which \$17.6 million was unused and available. The weighted average interest rate for these commitments was 6.7% at December 31, 1995. The total amount of borrowing commitments expiring in 1996 is \$12.0 million. In February 1996, the Company received a proposal from one of its lenders to syndicate a master \$125 million unsecured revolving credit facility. This facility would replace all of the Company's existing revolving credit facilities and provide the Company up to \$53 million of additional availability to fund future growth.

Certain 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.

Working capital increased to \$41.2 million at December 31, 1995 from \$40.1 million at December 31, 1994 due to higher levels of accounts receivable caused by higher sales volume and increased cash flow which lowers the amount of inventory financed by revolving credit facilities.

Cash and cash equivalents increased \$2.0 million in 1995. Principal sources of cash in 1995 were profitable operations, increased borrowings under revolving credit agreements and proceeds from sales of marketable securities, primarily consisting of tax-free municipal bonds. The principal uses of cash were to fund acquisitions, finance capital expenditures, pay dividends and fund working capital needs.

In March 1996, the Company completed the sale of 1,570,000 shares of Common Stock and received net proceeds of \$32.6 million. The Company intends to use approximately \$14.0 million of the proceeds to acquire Three States Supply Company, Inc. as discussed below. The Company anticipates using the remainder of the net proceeds to fund other potential acquisitions, to reduce debt and for general corporate purposes.

The Company has signed a letter of intent for the purchase of the net assets and business of Three States Supply Company, Inc., a Memphis, Tennessee-based distributor of building materials used primarily in the heating and air conditioning industry. The completion of the transaction is subject to certain conditions and is expected to occur during April 1996. The purchase price,



estimated at \$14 million, is subject to adjustment upon completion of an audit and will be funded by a portion of the proceeds from the recent sale of the Company's Common Stock.

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

#### ACQUISITION OF MINORITY INTERESTS

In March 1996, pursuant to a Stock Exchange Agreement and Plan of Reorganization (the "Exchange Agreement") with Rheem Manufacturing Company ("Rheem"), the Company acquired Rheem's minority ownership interests in three of the Company's distribution subsidiaries in exchange for 964,361 shares of unregistered Common Stock of the Company having an estimated fair value of \$16.1 million. Accordingly, following this transaction, all of the Company's distribution companies are wholly-owned subsidiaries of the Company.

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#### NEW ACCOUNTING STANDARDS

During 1995, the Company adopted Statement of Accounting Standards No. 119, "Disclosures about Derivative Financial Instruments and Fair Value of Financial Instruments" ("SFAS No. 119"). The disclosures required by SFAS No. 119 are shown in Note 10 of the Company's 1995 consolidated financial statements.

In March 1995, the FASB issued SFAS No. 121, "Accounting for Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS No. 121"). SFAS 121 requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than their carrying amount. The Company is required to adopt the provisions of SFAS No. 121 beginning in 1996. The Company will adopt SFAS No. 121 in the first quarter of 1996 and, based on current circumstances, does not expect the adoption to have a material effect on its consolidated financial position or results of operations.

In November 1995, the FASB issued SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"). SFAS No. 123 requires new disclosures and provides guidance for new accounting methods related to employee stock-based compensation plans. The Company expects to continue to account for its stock-based compensation plans in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees", as allowed under SFAS No. 123. The Company will adopt the new disclosure rules of SFAS No. 123 during 1996.

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<TABLE>  
<CAPTION>

#### WATSCO, INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, (IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)	1995	1994	1993
<S>	<C>	<C>	<C>
Revenues:			
Net sales	\$298,939	\$253,433	\$203,067
Service fees and royalties	32,069	30,298	27,589
Total revenues	331,008	283,731	230,656
Costs and expenses:			
Cost of sales	233,089	197,397	157,213
Direct service expenses	24,621	23,122	21,513
Selling, general and administrative expenses	55,288	48,169	40,540
Total costs and expenses	312,998	268,688	219,266
Operating income	18,010	15,043	11,390

Other income (expense):			
Investment income, net	281	140	383
Interest expense	(4,221)	(3,155)	(2,756)
Insurance proceeds	-	-	1,130
	(3,940)	(3,015)	(1,243)
Income before income taxes and minority interests	14,070	12,028	10,147
Income taxes	(5,234)	(4,630)	(3,819)
Minority interests	(1,586)	(1,636)	(1,287)
Net income	\$ 7,250	\$ 5,762	\$ 5,041
Earnings per share:			
Primary	\$ 1.08	\$ .89	\$ .85
Fully diluted	1.04	.87	.82

</TABLE>

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

<TABLE>  
<CAPTION>

WATSCO, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, (IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)	1995	1994
<S>	<C>	<C>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,751	\$ 1,744
Marketable securities	267	3,227
Accounts receivable, net	43,564	34,811
Inventories	59,724	49,259
Prepaid expenses and other current assets	5,073	4,608
Total current assets	112,379	93,649
Property, plant and equipment, net	11,286	8,829
Intangible assets, net	16,995	13,164
Other assets	4,224	4,022
	\$144,884	\$119,664

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Current portion of long-term obligations	\$ 2,455	\$ 1,781
Short-term promissory notes	4,250	-
Borrowings under revolving credit agreements	40,185	32,034
Accounts payable	17,229	13,108
Accrued liabilities	7,091	6,631
Total current liabilities	71,210	53,554
Long-term Obligations:		
Bank and other debt	3,818	2,719
Subordinated note	2,500	2,500
Convertible subordinated debentures	-	1,505
	6,318	6,724
Deferred income taxes	978	713
Minority interests	12,622	11,857
Commitments and contingencies (Notes 2 and 11)		
Shareholders' Equity:		
Common Stock, \$.50 par value, 4,801,536 and 4,658,010 shares issued and outstanding in 1995 and 1994, respectively	2,401	2,329
Class B Common Stock, \$.50 par value, 1,480,681 and 1,492,725 shares issued and outstanding in 1995 and 1994, respectively	740	746

Paid-in capital	19,479	18,565
Retained earnings	31,136	25,176
<hr/>		
Total shareholders' equity	53,756	46,816
<hr/>		
	\$144,884	\$119,664
<hr/>		

</TABLE>

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

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<TABLE>

<CAPTION>

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

(IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA)	Common Stock SHARES	Common Stock AMOUNT	Paid-in CAPITAL	Retained EARNINGS
<hr/>				
<S>	<C>	<C>	<C>	<C>
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
<hr/>				
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
<hr/>				
BALANCE AT DECEMBER 31, 1994	6,150,735	3,075	18,565	25,176
Conversion of debentures into Common Stock	24,403	12	152	
Contribution to 401(k) plan	9,042	5	144	
Exercise of stock options and warrant	98,037	49	618	
Common stock cash dividends, \$.19 per share of Common Stock and \$.19 per Class B share				(1,160)
Dividends on 6.5% Series A preferred stock of subsidiary				(130)
Net income				7,250
<hr/>				
BALANCE AT DECEMBER 31, 1995	6,282,217	\$3,141	\$19,479	\$31,136
<hr/>				

</TABLE>

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

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<TABLE>

<CAPTION>

WATSCO, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31,  
(IN THOUSANDS OF DOLLARS)

	1995	1994	1993
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	\$ 7,250	\$ 5,762	\$ 5,041
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,994	2,345	1,849
Provision for doubtful accounts	1,197	597	315
Net investment gains	(27)	(6)	(161)
Deferred income tax benefit	(25)	(237)	(455)
Noncash stock contribution to 401(k) plan	149	137	111
Minority interests, net of dividends paid	765	304	549
Changes in operating assets and liabilities, net of effects of acquisitions in 1995 and 1993:			
Accounts receivable	(3,207)	(5,151)	(1,155)
Inventories	644	(300)	1,462
Accounts payable and accrued liabilities	1,505	(797)	(5,676)
Other, net	(198)	(229)	(936)
Net cash provided by operating activities	11,047	2,425	944
Cash flows from investing activities:			
Cash used in acquisitions, net of cash acquired	(12,987)	-	(3,547)
Capital expenditures, net	(4,248)	(4,148)	(2,994)
Net proceeds from sales (purchases) of marketable securities	3,012	(2,258)	(906)
Net cash used in investing activities	(14,223)	(6,406)	(7,447)
Cash flows from financing activities:			
Repayments of long-term obligations	(555)	(222)	(3,874)
Net borrowings under revolving credit agreements	6,361	5,883	1,865
Net proceeds from issuances of common stock	667	138	9,680
Cash dividends	(1,290)	(1,167)	(957)
Net cash provided by financing activities	5,183	4,632	6,714
Net increase in cash and cash equivalents	2,007	651	211
Cash and cash equivalents at beginning of year	1,744	1,093	882
Cash and cash equivalents at end of year	\$ 3,751	\$ 1,744	\$ 1,093
Supplemental disclosures:			
Income taxes paid	\$ 4,999	\$ 4,709	\$ 5,215
Interest paid	4,186	3,149	3,056

</TABLE>

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

WATSCO, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

Watsco, Inc. ("Watsco") and its subsidiaries (the "Company") is the largest distributor of residential central air conditioners and supplies 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, Louisiana, Nevada and North Carolina. The Company is also a manufacturer of electronic and mechanical components for air conditioning, heating and refrigeration equipment that are sold to wholesale distributors and original equipment manufacturers (OEMs). In addition, the Company operates Dunhill Personnel System, Inc., a nationwide provider of temporary help and permanent placement services.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of Watsco, Inc. and its subsidiaries. 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 (with an option to increase the equity interest to 50.25%) in Heating & Cooling Supply, Inc. ("Heating & Cooling"). 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"). Effective March 19, 1996, Watsco acquired Rheem's minority interests in these subsidiaries (see Note 13).

#### 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

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

#### PROPERTY, PLANT AND EQUIPMENT

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

#### INTANGIBLE ASSETS

Intangible assets, net of accumulated amortization of \$2,040,000 and \$1,639,000 at December 31, 1995 and 1994, respectively, consists primarily 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 \$401,000, \$364,000 and \$358,000 in 1995, 1994 and 1993, respectively.

#### INCOME TAXES

During 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This statement requires the asset and liability approach for financial accounting and reporting for income taxes. The adoption of SFAS No. 109 did not have a material effect on the consolidated financial position of the Company during 1993. 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.

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#### 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, 1995 and 1994, marketable securities consists primarily of tax exempt municipal bonds and equity securities and have been classified as "available for sale" securities by the Company. At December 31, 1995 and 1994, the cost of such securities approximates market value.

#### DERIVATIVE FINANCIAL INSTRUMENT

In order to manage the risk of movements in interest rates that affect the cost of borrowings under revolving credit agreements, the Company has entered into an interest rate hedge agreement which involves the exchange of fixed and floating rate interest payments periodically over the life of the agreement without the exchange of the underlying principal amounts. The differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements as an adjustment to interest expense.

#### USE OF ESTIMATES

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

## EARNINGS PER SHARE

Primary earnings per share is computed by dividing net income, less subsidiary preferred stock dividends, by the total of the weighted average number of shares outstanding and common stock equivalents. Fully diluted earnings per share additionally assumes, if dilutive, conversion of the 10% Convertible Subordinated Debentures due 1996, 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 and any added dilution from common stock equivalents.

Shares used to calculate earnings per share (restated in 1993 and 1994 to reflect a three-for-two stock split effected May 15, 1995, see Note 9) are as follows:

<TABLE>

<CAPTION>

YEARS ENDED DECEMBER 31,	1995	1994	1993
<S>	<C>	<C>	<C>
Weighted average shares outstanding	6,197,297	6,107,275	5,744,052
Dilutive stock options and warrants	384,952	218,853	124,530
Shares for primary earnings per share	6,582,249	6,326,128	5,868,582
Assumed conversion of debentures	240,522	267,561	470,461
Additional dilution of stock options and warrants	147,833	52,573	-
Shares for fully diluted earnings per share	6,970,604	6,646,262	6,339,043

</TABLE>

## 2. INVENTORIES

Inventories consists of (in thousands):

DECEMBER 31,	1995	1994
Raw materials	\$ 3,637	\$ 4,058
Work-in-process	1,359	1,152
Finished goods	54,728	44,049
	\$ 59,724	\$ 49,259

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Rheem is a major supplier to the Company under long-term distribution agreements. Net purchases under these agreements were \$130,752,000, \$113,117,000 and \$90,435,000, or 55%, 57% and 57% of the Company's aggregate purchases in 1995, 1994 and 1993, respectively. Included in accounts payable in the consolidated balance sheets are amounts owed to Rheem totaling \$7,224,000 and \$4,207,000 at December 31, 1995 and 1994, respectively. At December 31, 1995, the Company had non-cancelable purchase commitments to Rheem of approximately \$23,384,000.

## 3. PROPERTY, PLANT AND EQUIPMENT, NET

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

DECEMBER 31,	1995	1994
Land and buildings	\$ 4,097	\$ 4,023
Machinery and equipment	10,947	10,021
Furniture and fixtures	7,547	5,461
	22,591	19,505
Less: accumulated depreciation and amortization	(11,305)	(10,676)
	\$ 11,286	\$ 8,829

## 4. REVOLVING CREDIT AGREEMENTS

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

DECEMBER 31,	1995	1994
Variable-rate revolving note of		

Gemaire	\$15,750	\$ 7,400
Variable-rate revolving note of Heating & Cooling	14,185	19,260
Variable-rate revolving note of Comfort Supply	7,000	5,374
Variable-rate revolving note of Central Air Conditioning Distributors, Inc.	3,250	-
-----	-----	-----
	\$40,185	\$32,034
=====	=====	=====

Borrowings under the Gemaire revolving note, which expire in 1998, may not exceed \$27,000,000 and are subject to maintenance of certain levels of accounts receivable and inventories. At Gemaire's option, interest is at 1-5/8% below the bank's prime rate, payable quarterly, or at a fixed rate equal to the LIBOR rate for a fixed duration plus .75%, payable at the end of the period. The note is secured by substantially all of Gemaire's assets (with an aggregate carrying value of \$37,637,000 at December 31, 1995) and is without recourse to Watsco.

Borrowings under the Heating & Cooling revolving note, which expire in 1998, 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 at 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. The note is secured by substantially all of Heating & Cooling's assets (with an aggregate carrying value of \$28,741,000 at December 31, 1995) and is without recourse to Watsco.

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Borrowings under the Comfort Supply revolving note, which expire 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 bank's prime rate less 1-5/8% or at a fixed rate equal to the LIBOR rate plus .75% and is payable monthly. The note is secured by substantially all of Comfort Supply's assets (with an aggregate carrying value of \$19,983,000 at December 31, 1995) and is without recourse to Watsco. The Company expects to extend or obtain replacement financing for the revolving note prior to its expiration.

Borrowings under the Central Air Conditioning Distributors, Inc. ("CAC") revolving note, which expire in 1998, may not exceed \$8,000,000 and are secured by all of CAC's outstanding common stock. At CAC's option, interest is at the bank's prime rate less 1-5/8% or at a fixed rate equal to the LIBOR rate plus .75%, and is payable quarterly. At December 31, 1995, available borrowings under the CAC revolving credit agreement were reduced by \$4,250,000 for standby letters of credit that were used to collateralize short-term promissory notes issued in connection with the acquisition of CAC (see Note 8). The standby letters of credit expire during 1996, concurrent with the maturity of the short-term promissory notes. Outstanding borrowings under CAC's revolving credit agreement, including the amounts contingently liable, are guaranteed by Watsco.

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 bank's prime rate less 1-5/8% or at a fixed rate equal to the LIBOR rate plus .75%, and is payable quarterly. At December 31, 1995 and 1994, there were no outstanding borrowings under the facility.

The terms of the Gemaire, Heating & Cooling, Comfort Supply and CAC revolving credit agreements restrict the transfer of their net assets and limit the payment of dividends to their shareholders. At December 31, 1995, Watsco's proportionate share of the aggregate net assets of Gemaire, Heating & Cooling, Comfort Supply and CAC was \$21,663,000 of which \$5,282,000 was unrestricted.

At December 31, 1995 and 1994, the weighted average interest rate for the borrowings under revolving credit agreements was 6.7% and 7.6%, respectively. During the years ended December 31, 1995, 1994 and 1993, the weighted average rates were 7.3%, 6.7% and 5.7%, respectively.

#### 5. LONG-TERM OBLIGATIONS

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

DECEMBER 31,	1995	1994
-----	-----	-----
Mortgage note	\$ 888	\$ 254
Variable-rate term note of Gemaire	900	1,300
Promissory notes of Comfort Supply	727	-
Other	1,303	1,165
-----	-----	-----

The mortgage note is payable in monthly principal installments of \$13,000 plus interest at a fixed rate of 8-1/4% and matures in 2002. The mortgage note is secured by land and buildings with a net carrying value of \$1,011,000 at December 31, 1995.

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 promissory notes, issued in connection with certain acquisitions made by Comfort Supply during 1995, bear interest at 8%, payable semi-annually, and mature at varying dates through 2000.

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.

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The Company's convertible subordinated debentures represent 10% Convertible Subordinated Debentures due 1996 (the "Class B Debentures") that may be converted into Class B Common Stock at \$6.74 per share. The Company is required to redeem any debentures that remain outstanding on September 12, 1996. Redemption, at par plus accrued interest, may be made by the Company at any time prior to such date. At December 31, 1995, Class B Debentures in the aggregate principal amount of \$1,505,000 (included in current portion of long-term obligations in the accompanying consolidated balance sheet) were convertible into Class B Common Stock. Directors and an affiliate of the Company owned \$1,414,500 and \$1,567,500 of Class B Debentures at December 31, 1995 and 1994, respectively. During 1995, 1994 and 1993, \$164,000, \$192,000 and \$2,607,000, respectively, of convertible subordinated debentures were converted into common stock.

Annual maturities of long-term obligations for the years subsequent to December 31, 1995 are as follows: \$2,455,000 in 1996; \$881,000 in 1997; \$3,238,000 in 1998; \$415,000 in 1999; \$808,000 in 2000 and \$976,000 thereafter.

#### 6. INCOME TAXES

The income tax provision consists of (in thousands):

YEARS ENDED DECEMBER 31,	1995	1994	1993
Federal	\$4,612	\$3,991	\$3,314
State	622	639	505
	\$5,234	\$4,630	\$3,819
Current	\$5,259	\$4,867	\$4,274
Deferred	(25)	(237)	(455)
	\$5,234	\$4,630	\$3,819

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

YEARS ENDED DECEMBER 31,	1995	1994	1993
Federal statutory rate	34.0%	34.0%	34.0%
State income taxes, net of federal benefit	2.9	3.5	3.3
Other, net	.3	1.0	.3
	37.2%	38.5%	37.6%

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



DECEMBER 31,	1995	1994
Deferred tax assets:		
Included in other current assets -		
Accounts receivable reserves	\$ 1,052	\$ 1,005
Capitalized inventory costs		
and inventory reserves	2,023	1,860
Other	155	217
	3,230	3,082
Included in other noncurrent assets -		
Net operating loss carryforwards of subsidiary	789	868
Other	225	211
	1,014	1,079
Deferred tax liabilities:		
Included in accrued liabilities -		
Inventory	(128)	(157)
Other	-	(178)
	(128)	(335)
Included in noncurrent liabilities -		
Depreciation and amortization	(614)	(397)
Other	(364)	(316)
	(978)	(713)
Total net deferred tax assets	\$ 3,138	\$ 3,113

A subsidiary of the Company has available net operating loss carryforwards (NOLs) of approximately \$2.3 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 the recorded deferred tax asset for the NOLs is presently realizable as the operating income of the subsidiary will be sufficient to fully utilize the available NOLs. However, the ultimate realizability of the deferred tax asset could be impacted in the near term if estimates of the subsidiary's future taxable income during the carryforward period are reduced.

#### 7. STOCK OPTION AND BENEFIT PLANS

The Company has two stock option plans, the 1991 Stock Option Plan (the "1991 Plan") and the 1983 Executive Stock Option Plan (the "1983 Plan"). The Company accounts for these plans in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees, under which no compensation cost has been recognized. A summary of these plans as of December 31, 1995 is as follows:

**1991 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 974,348 shares of Common Stock and 373,388 shares of Class B Common Stock have been granted. 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 of the Board of Directors. The Option Committee may waive the vesting period and permit options to be exercised immediately.

**1983 PLAN.** For directors, officers and key employees. This plan expired in February 1993; therefore, no additional options may be granted. Options as to 46,909 shares of Common Stock and 7,403 shares of Class B Common Stock are outstanding under this plan at December 31, 1995. 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.

Summarized information for the above plans is as follows:

<TABLE>  
<CAPTION>

YEARS ENDED DECEMBER 31,	1995	1994	1993
--------------------------	------	------	------

<S>	<C>	<C>	<C>
Options outstanding at beginning of year	1,066,286	1,032,612	865,711
Granted	41,000	104,025	219,750
Exercised	(30,737)	(46,426)	(31,144)
Canceled	(20,553)	(23,925)	(21,705)
=====			
Options outstanding at end of year	1,055,996	1,066,286	1,032,612
=====			
Exercisable at end of year	536,902	791,788	533,685
=====			
Available for future grant	24,765	50,013	120,738
=====			
Average prices of options exercised	\$6.59	\$6.61	\$5.00
=====			
Price range of options outstanding at end of year	\$5.00 to \$16.50	\$5.00 to \$11.00	\$4.21 to \$10.67
=====			

</TABLE>

The Company has profit sharing retirement plans for its employees which are qualified under Section 401(k) of the Internal Revenue Code. The Company makes varying annual matching contributions based on a percentage of eligible employee compensation deferrals. The contributions are made in cash or by the issuance of the Company's common stock to the plan on behalf of its employees. For the years ended December 31, 1995, 1994 and 1993, aggregate contributions to these plans were \$265,000, \$268,000 and \$207,000, respectively.

Watsco has 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, 1995, 1994 and 1993, the Company recorded expense of \$53,000, \$49,000 and \$45,000, respectively, related to this program.

The Company has a Key Executive Non-Qualified Deferred Compensation Plan. At December 31, 1995, there were two individuals participating in this plan. For the years ended December 31, 1995, 1994 and 1993, the Company recorded expense of \$65,000, \$158,000 and \$45,000, respectively, related to this plan.

#### 8. ACQUISITIONS

##### 1993 ACQUISITIONS

In April 1993, Watsco acquired 80% and Rheem acquired 20% of the common stock of Comfort Supply, a Texas-based wholesale distributor of air conditioners and related parts and supplies, for \$4,022,000. The cash consideration paid by the Company 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.

In June 1993, Heating & Cooling purchased the net assets and business of Air Conditioning Sales, Inc. ("ACS"), a central California-based wholesale distributor of air conditioners and related parts and supplies. Consideration for the purchase included a cash payment of \$211,000 to the seller and a cash payment of \$2,073,000 to an escrow account for the settlement of certain seller obligations. In connection with the ACS acquisition, 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 that was due to Rheem by the seller. 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 1993 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. In connection with these acquisitions, the Company assumed liabilities of \$19,832,000.

##### 1995 ACQUISITIONS

During 1995, the Company completed four separate acquisitions of wholesale distributors of air conditioners and related parts and supplies for aggregate

consideration of \$18,116,000. The acquisitions were made either in the form of the purchase of all of the outstanding common stock or the purchase of the net assets and business of the respective sellers. Payment of the consideration for these acquisitions consisted of cash payments aggregating \$13,008,000, the issuance of short-term promissory notes of \$4,250,000 and the issuance of long-term promissory notes of \$858,000. Cash payments were funded from existing cash or from borrowings under revolving credit agreements. The short-term promissory notes bear interest at 7% and mature during 1996. The long-term promissory notes bear interest at 8% and mature at varying dates through 2000 (see Note 5).

The 1995 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 \$4,232,000 is being amortized on a straight-line basis over 40 years. In connection with these acquisitions, the Company assumed liabilities of \$4,891,000.

The unaudited pro forma information of the Company as if the 1995 acquisitions had occurred on January 1, 1994 is as follows (in thousands, except per share data):

YEARS ENDED DECEMBER 31,	1995	1994
Revenues	\$354,371	\$330,576
Net income	\$8,049	\$6,018
Primary earnings per share	\$1.20	\$.93
Fully diluted earnings per share	\$1.15	\$.90

The unaudited pro forma information is not necessarily indicative of either the results of operations that would have occurred had the above companies been acquired on January 1, 1994 for the years presented or of future results of operations.

## 9. SHAREHOLDERS' EQUITY

The authorized capital stock of the Company is 40,000,000 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 February 1993, the Company completed the sale of 1,200,000 shares of Common Stock resulting in net proceeds of \$9,495,000.

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 the common stock accounts the par value of the additional shares arising from the split. In addition, all references in the consolidated financial statements and notes thereto to number of shares, per share amounts, stock option data and market prices of both classes of the Company's common stock have been restated.

## 10. FINANCIAL INSTRUMENTS

### RECORDED FINANCIAL INSTRUMENTS

The Company's recorded financial instruments consist of cash and cash equivalents, accounts receivable, marketable securities, short-term promissory notes, the current portion of long-term obligations, the convertible subordinated debentures, borrowings under revolving credit agreements, debt instruments included in other long-term obligations and the H&C Preferred Stock. At December 31, 1995, the fair values of cash and cash equivalents, accounts receivable, marketable securities, short-term promissory notes and the current portion of long-term obligations approximated their carrying values due to the

short-term nature of these instruments and based on available quoted market prices. The estimated fair value of the other recorded financial instruments and the related carrying amounts are as follows (in thousands):

DECEMBER 31, 1995	CARRYING AMOUNT	FAIR VALUE
Borrowings under revolving credit agreements	\$40,185	\$40,185
Convertible subordinated debentures	1,505	3,908
Debt instruments included in long-term obligations	5,643	6,125
H&C Preferred Stock	2,000	*

\* Not determinable

The fair values of borrowings under revolving credit agreements and debt instruments included in long-term obligations are based upon interest rates available to the Company for similar instruments with consistent terms and remaining maturities. The fair value of the Company's convertible subordinated debentures is based on the year end market price of the underlying shares of Class B Common Stock. Management is unable to determine the fair value of the H&C Preferred Stock as the security has no quoted market price and, because the security contains certain unique terms, conditions, covenants and restrictions, there are no identical securities that have quoted market prices.

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#### OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

At December 31, 1995, the Company had an interest rate swap agreement related to borrowings of \$10 million to manage the net exposure to interest rate changes related to a portion of its borrowings under revolving credit agreements. The interest rate swap agreement, which expires in December 2000, effectively converts a portion of the Company's LIBOR-based variable rate borrowings into fixed rate borrowings. The impact of interest rate risk management activities on 1995's results of operations and the carrying value and related fair value of interest rate risk management transactions at December 31, 1995 is not material.

At December 31, 1995, the Company is contingently liable under standby letters of credit aggregating \$5.1 million that were used as collateral for promissory notes issued in connection with certain acquisitions made during 1995 (see Note 8). The Company does not expect any material losses to result from the issuance of the standby letters of credit because performance is not expected to be required; accordingly, the estimated fair value of these instruments is zero.

#### CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments and accounts receivable. The Company places its temporary cash investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution or investment. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's customer base, and their dispersion across many different geographical regions. The Company establishes and monitors an allowance for doubtful accounts based on the credit risk of specific customers, historical trends and other information. At December 31, 1995 and 1994, the allowance for doubtful accounts was \$3,101,000 and \$2,681,000, respectively. Although the Company believes its allowance is sufficient, the amount the Company ultimately realizes could differ materially in the near-term from the amount reported above.

#### 11. COMMITMENTS AND CONTINGENCIES

At December 31, 1995, the Company is obligated under non-cancelable operating leases of real property and equipment used in its operations for minimum annual rentals as follows: \$4,685,000 in 1996; \$4,090,000 in 1997; \$2,957,000 in 1998; \$2,229,000 in 1999; \$1,388,000 in 2000 and \$3,059,000 thereafter. Rental expense for the years ended December 31, 1995, 1994 and 1993 was \$4,861,000, \$4,026,000 and \$3,584,000, respectively.

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

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## 12. INDUSTRY SEGMENT INFORMATION

At December 31, 1995, the Company operated principally in two industry segments. Operations in the Climate Control segment are conducted through the Company's four distribution subsidiaries, Gemaire, Heating & Cooling, Comfort Supply and CAC, which distribute residential central air conditioners. 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 income is total revenues less operating expenses and unallocated corporate 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 \$8,944,000, \$6,606,000 and \$3,555,000 for the years ended December 31, 1995, 1994 and 1993, respectively.

<TABLE>  
<CAPTION>

(IN THOUSANDS OF DOLLARS)	CLIMATE CONTROL	PERSONNEL SERVICES	OTHER	CONSOLIDATED
<S>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1995				
Revenues	\$298,939	\$ 32,069		\$ 331,008
Operating income	\$ 18,401	\$ 1,370		\$ 19,771
Interest expense				(4,221)
Unallocated corporate expenses				(1,761)
Investment income, net				281
Income before income taxes and minority interests				\$ 14,070
Identifiable assets	\$133,001	\$ 9,025		\$ 142,026
Corporate assets				2,858
Total assets				\$ 144,884
Depreciation and amortization	\$ 2,446	\$ 210	\$338	\$ 2,994
Capital expenditures, net	\$ 3,493	\$ 395	\$360	\$ 4,248
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
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

</TABLE>

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### 13. SUBSEQUENT EVENTS

On March 6, 1996, the Company completed the sale of 1,570,000 shares of Common Stock resulting in net proceeds of \$32,609,000. The Company intends to use approximately \$14 million of the proceeds in the pending acquisition of Three States Supply Company, Inc., discussed below. The Company anticipates using the remainder of the net proceeds for other potential acquisitions, to reduce debt and for general corporate purposes.

Effective March 19, 1996, the Company and Rheem completed a transaction pursuant to a Stock Exchange Agreement and Plan of Reorganization (the "Exchange Agreement") whereby the Company acquired Rheem's 20% ownership interests in Gemaire and Comfort Supply and Rheem's 50% ownership interest in Heating & Cooling in exchange for 964,361 unregistered shares of the Company's Common Stock having an estimated fair value of \$16.1 million. The H&C Preferred Stock was not purchased by the Company in this transaction and will continue to be outstanding. The acquisition of Rheem's ownership interests will be accounted for under the purchase method of accounting and, accordingly, the effects of the transaction will be included in the Company's results of operations as of the transaction date. Previous agreements between the Company and Rheem provided Rheem with the right to "call" from the Company and the Company with the right to "put" to Rheem the Company's ownership interests in Gemaire, Comfort Supply and Heating & Cooling. Under the terms of the Exchange Agreement, the put/call provisions included in the previous agreements are effectively eliminated because the rights to "put" or "call" become exercisable primarily upon the occurrence of certain events of insolvency.

Following the aforementioned sale of Common Stock and the issuance of shares pursuant to the Exchange Agreement, the unaudited pro forma shareholders' equity of the Company as if these transactions had occurred on December 31, 1995 in comparison to the historical amount reported is as follows (in thousands):

YEAR ENDED DECEMBER 31, 1995	PRO FORMA	HISTORICAL
Common Stock, \$.50 par value, 7,485,897 shares issued and outstanding, pro forma (4,801,536 shares, historical)	\$ 3,743	\$ 2,401
Class B Common Stock, \$.50 par value, 1,480,681 shares issued and outstanding (pro forma and historical)	740	740
Paid-in capital	68,121	19,479
Retained earnings	31,136	31,136
Total shareholders' equity	\$103,740	\$53,756

The Company has signed a letter of intent for the purchase of the net assets and business of Three States Supply Company, Inc., a Memphis, Tennessee-based distributor of building materials used primarily in the heating and air conditioning industry. The completion of the transaction is subject to certain conditions. The purchase price, estimated at \$14 million, is subject to adjustment upon the completion of an audit of the net assets and will be made out of a portion of the proceeds from the sale of Watsco's Common Stock completed on March 6, 1996.

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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, 1995 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, 1995. 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, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Miami, Florida,  
March 29, 1996.

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<TABLE>  
<CAPTION>

WATSCO, INC. AND SUBSIDIARIES  
QUARTERLY FINANCIAL DATA

(IN THOUSANDS OF DOLLARS, EXCEPT SHARE DATA) (UNAUDITED)	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1995:					
Revenues	\$60,321	\$91,062	\$98,807	\$80,818	\$331,008
Gross profit	14,735	20,144	21,668	16,751	73,298
Net income	901	2,301	2,831	1,217	7,250
Earnings per share(3):					
Primary	\$.14	\$.35	\$.42	\$.17	\$1.08
Fully diluted	.13	.34	.41	.17	1.04
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) (3):					
Primary	\$.11	\$.30	\$.36	\$.13	\$.89
Fully diluted	.11	.29	.35	.13	.87
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) (3):					
Primary	\$.07	\$.37(1)	\$.29	\$.10	\$.85
Fully diluted	.07	.35(1)	.28	.10	.82

</TABLE>

- (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 AND PRIMARY EARNINGS PER SHARE WERE \$.25 FOR THE SECOND QUARTER OF 1993 AND FULLY DILUTED EARNINGS PER SHARE WAS \$.71 (\$.73 PRIMARY) FOR THE YEAR ENDED DECEMBER 31, 1993.
- (2) EARNINGS PER SHARE INFORMATION HAS BEEN RESTATED TO GIVE EFFECT TO A THREE-FOR-TWO STOCK SPLIT EFFECTED ON MAY 15, 1995.

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

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WATSCO, INC. AND SUBSIDIARIES  
INFORMATION ON COMMON STOCK

The Company's Common Stock is traded on the New York Stock Exchange under the symbol WSO and its Class B Common Stock is traded on the American Stock Exchange under the symbol WSOB. The following table indicates the high and low prices of the Company's Common Stock and Class B Common Stock, as reported by the New York Stock Exchange and American Stock Exchange, respectively, and dividends paid per share for each quarter during the years ended December 31, 1995, 1994 and 1993. Stock prices and cash dividends per share have been adjusted for a three-for-two stock split effected by the Company on May 15, 1995. At March 15, 1996, excluding shareholders with stock in street name, the Company had approximately 600 Common Stock shareholders of record and 400 Class B shareholders of record.

<TABLE>  
<CAPTION>

	COMMON		CLASS B		CASH DIVIDENDS	
	HIGH	LOW	HIGH	LOW	COMMON	CLASS B
<S>	<C>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1995:						
Fourth quarter	\$17-7/8	\$16-3/8	\$17-1/2	\$16	\$.050	\$.050
Third quarter	17-3/8	13-3/8	16-3/4	13-1/2	.050	.050
Second quarter	13-3/4	11-3/4	13-1/2	11-5/8	.043	.043
First quarter	11-7/8	10-1/2	11-5/8	10-5/8	.043	.043
=====						
YEAR ENDED DECEMBER 31, 1994:						
Fourth quarter	\$11-1/8	\$10-3/8	\$11	\$10-1/4	\$.043	\$.043
Third quarter	11-3/8	10-1/8	11-1/8	10-3/8	.043	.043
Second quarter	11-3/8	9-5/8	11-1/4	9-7/8	.043	.043
First quarter	10-1/4	8-5/8	10-1/4	8-7/8	.040	.040
=====						
YEAR ENDED DECEMBER 31, 1993:						
Fourth quarter	\$ 9-3/4	\$ 7-7/8	\$ 9-7/8	\$ 8-1/4	\$.040	\$.040
Third quarter	11-3/8	9-1/8	11-1/8	9-3/8	.040	.040
Second quarter	10-1/2	8-7/8	10-1/2	8-7/8	.040	.040
First quarter	9-1/8	7-5/8	9-1/4	7-3/4	.040	.040
=====						

</TABLE>

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## REGISTRANT'S SUBSIDIARIES

The following table sets forth, at March 21, 1996, the Registrant's significant subsidiaries and other associated companies, the jurisdiction of incorporation of each and the percentage of voting securities of each owned by the Registrant. There are no subsidiaries not listed in the table which would, in the aggregate, be considered significant.

&lt;TABLE&gt;

&lt;CAPTION&gt;

Active Subsidiaries: -----	State of Incorporation -----	Percentage Owned -----
<S>	<C>	<C>
Gemaire Distributors, Inc.	Florida	100%
Heating & Cooling Supply, Inc.	California	100%
Comfort Supply, Inc.	Delaware	100%
Central Air Conditioning Distributors, Inc.	North Carolina	100%
H.B. Adams Distributors, Inc.	Florida	100%
Airite, Inc.	Louisiana	100%
Watsco Components, Inc.	Florida	100%
Rho Sigma, Inc.	Florida	100%
Cam-Stat, Inc.	Florida	100%
P.E./Del Mar, Inc.	Florida	100%
Dunhill Personnel System, Inc.	Delaware	100%
Dunhill Temporary Systems, Inc.	New York	100%
Dunhill Temporary Systems of Indianapolis, Inc.	Indiana	100%
Dunhill Personnel System of New Jersey, Inc.	New Jersey	100%

&lt;/TABLE&gt;

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants, we hereby consent to the incorporation of our reports incorporated by reference in this Form 10-K, into the Company's previously filed Form S-8 Registration Statement File No. 33-6229, Form S-8 Registration Statement File No. 33-72798, Form S-3 Registration Statement File No. 33-7758, Form S-3 Registration Statement File No. 33-37982, Form S-3 Registration Statement File No. 333-00371 and Form S-3 Registration Statement File No. 333-01441.

ARTHUR ANDERSEN LLP

Miami, Florida,  
March 29, 1996.

<TABLE> <S> <C>

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE WATSCO, INC. FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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