

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-3
REGISTRATION STATEMENT

UNDER
THE SECURITIES ACT OF 1933

WATSCO, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

FLORIDA

59-0778222

(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER
IDENTIFICATION NO.)

2665 SOUTH BAYSHORE DRIVE
SUITE 901
COCONUT GROVE, FLORIDA 33133
(305) 858-0828
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE
NUMBER
INCLUDING AREA CODE, OF REGISTRANT'S
PRINCIPAL EXECUTIVE OFFICES)

RONALD P. NEWMAN
CHIEF FINANCIAL OFFICER
WATSCO, INC.
2665 SOUTH BAYSHORE DRIVE
SUITE 901
COCONUT GROVE, FLORIDA 33133
(305) 858-0828
(NAME, ADDRESS, INCLUDING ZIP CODE, AND
TELEPHONE NUMBER
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

COPIES OF COMMUNICATION TO:

BRUCE E. MACDONOUGH, ESQUIRE
GREENBERG, TRAUERIG, HOFFMAN,
LIPOFF, ROSEN & QUENTEL, P.A.
1221 BRICKELL AVENUE
MIAMI, FLORIDA 33131

(305) 579-0500

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

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

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

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

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

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

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

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

=====

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED JANUARY 24, 1997

3,000,000 SHARES

WATSCO, INC.

COMMON STOCK
(PAR VALUE \$.50 PER SHARE)

All of the 3,000,000 shares of Common Stock offered hereby are being sold by the Company.

The Company has two classes of common stock: Common Stock and Class B Common Stock. The Common Stock is substantially identical to the Company's Class B Common Stock except with respect to voting power, with the Common Stock having one vote per share and the Class B Common Stock having ten votes per share. The holders of Common Stock are currently entitled to vote as a separate class to elect 25% of the Board of Directors.

The Common Stock and the Class B Common Stock are listed on the New York Stock Exchange and American Stock Exchange under the symbols "WSO" and "WSOB," respectively. On January 23, 1997, the last reported sale prices of the Common Stock and Class B Common Stock on the New York Stock Exchange and the American Stock Exchange were \$32.125 and \$30.75 per share, respectively.

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

	INITIAL PUBLIC OFFERING PRICE	UNDERWRITING DISCOUNT(1)	PROCEEDS TO COMPANY(2)
Per Share	\$	\$	\$
Total(3)	\$	\$	\$

(1) The Company has agreed to indemnify the several Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."

(2) Before deducting estimated expenses of approximately \$350,000 payable by the Company.

(3) The Company has granted the several Underwriters an option for 30 days to purchase up to an additional 450,000 shares at the initial public offering price per share, less the underwriting discount, solely to cover over-allotments. If such option is exercised in full, the total initial public offering price, underwriting discount and proceeds to Company will be \$, \$ and \$, respectively. See "Underwriting."

The shares offered hereby are offered severally by the Underwriters, as specified herein, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. It is expected that certificates for the shares will be ready for delivery in New York, New York, on or about , 1997.

GOLDMAN, SACHS & CO.

PRUDENTIAL SECURITIES INCORPORATED

SMITH BARNEY INC.

ROBERT W. BAIRD & CO.
INCORPORATED

The date of this Prospectus is , 1997.

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

AIR CONDITIONING
USAGE HOURS/YEAR

/box/ 0 - 500
/box/ 500 - 1000
/box/ 1000 - 1500
/box/ 1500 - 2000

SOURCE: CONSUMER REPORTS

/circle/ 102 WATSCO DISTRIBUTION CENTERS

/square/ 33 ADDITIONAL BRANCHES PENDING
COMPLETION OF ANNOUNCED AQUISITIONS

This Prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding, among other items, (i) the Company's business and acquisition strategies, (ii) potential acquisitions by the Company, (iii) the use of the proceeds of the offering, (iv) the Company's financing plans, and (v) industry, demographic and other trends affecting the Company's financial condition or results of operations. These forward-looking statements are based largely on the Company's expectations and are subject to a number of risks and uncertainties, certain of which are beyond the Company's control. Actual results could differ materially from these forward-looking statements as a result of the factors described in this Prospectus, including general economic conditions, prevailing interest rates, competitive factors and the ability of the Company to continue to implement its acquisition strategy. In light of these risks and uncertainties, there can be no assurance that the forward-looking information contained in this Prospectus will in fact transpire. See "Prospectus Summary," "Business--Business and Acquisition Strategy" and "--Proposed Acquisitions," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Use of Proceeds."

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

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND FINANCIAL STATEMENTS AND RELATED NOTES APPEARING OR INCORPORATED BY REFERENCE ELSEWHERE IN THIS PROSPECTUS. UNLESS OTHERWISE INDICATED, THE INFORMATION APPEARING IN THIS PROSPECTUS (I) HAS BEEN ADJUSTED TO REFLECT THREE-FOR-TWO STOCK SPLITS EFFECTED IN MAY 1995 AND JUNE 1996, AND (II) ASSUMES THAT THE UNDERWRITERS' OVER-ALLOTMENT OPTION WILL NOT BE EXERCISED.

THE COMPANY

Watsco, Inc. ("Watsco" or the "Company") is the largest distributor of residential central air conditioners in the United States, with leading positions in Florida, Texas and California, the three largest air conditioning markets in the country, as well as other large markets in the U.S. sunbelt. 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 and earnings per share have increased at a compound annual growth rate of 22%. Total revenues and earnings per share for the nine months ended September 30, 1996 increased 29% and 33%, respectively, over the comparable period in 1995. Since 1989, Watsco has acquired 11 air conditioning distributors and believes it is the only company pursuing a consolidation strategy by making significant acquisitions in the highly fragmented air conditioning distribution industry. The Company estimates there are over 700 air conditioning distributors in the sunbelt. All of the Company's significant acquisitions have to date been accretive to earnings per share. In addition, the Company achieved internal sales growth of 8% and 9% for 1995 and the nine months ended September 30, 1996, respectively.

The Company estimates that the market for residential central air conditioners and related supplies in the sunbelt was over \$7 billion in 1995 and has grown at an annual rate of 6.3% 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 66 million central air conditioner units have been installed in the United States since 1975. Management believes that approximately 60% of these units were installed in the sunbelt. Many of the units installed from the mid-1970s to the mid-1980s are reaching the end of their useful lives, thus providing a growing replacement market. The Company also sells to the homebuilding market and is well positioned to benefit from increases in housing starts.

The Company focuses on satisfying the needs of the higher margin replacement market, where customers generally 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, well-stocked inventories and multiple warehouse locations in metropolitan markets. The Company sells its products from 102 branch warehouses to over 23,000 air conditioning and heating contractors and dealers. The Company also produces over 4,000 electronic and mechanical components for air conditioning, heating and refrigeration equipment that are sold to over 5,000 wholesale distributors and original equipment manufacturers ("OEMs").

The Company's consolidation strategy has resulted in a number of completed and proposed acquisitions in recent periods. In 1995, Watsco acquired four distributors which reported aggregate prior year revenues of approximately \$47 million. In 1996, Watsco acquired three distributors, which reported aggregate prior year revenues of approximately \$66 million. The Company currently has proposed acquisitions (the "Proposed Acquisitions") pending with Inter-City Products Corporation (USA) ("Inter-City") and Carrier Corporation ("Carrier"). On January 23, 1997, the Company entered into a definitive agreement with Inter-City to acquire 25 factory distribution branches that are located primarily in southeast markets and are expected to report aggregate 1996 revenues of approximately \$93 million. This transaction is expected to close in January 1997. In December 1996, the Company announced that it had entered into a letter of intent with Carrier to acquire the net assets and business

of two distribution operations with eight branches that are located in midwest markets and are expected to report aggregate 1996 revenues of approximately \$65 million. The Proposed Acquisitions are subject to various conditions, including the negotiation of a definitive asset purchase agreement in the case of the Carrier acquisition. Accordingly, there can be no assurance that either of such Proposed Acquisitions will be consummated. The Proposed Acquisitions are not contingent upon the completion of this offering. For additional information regarding the Proposed Acquisitions, see "Business--Proposed Acquisitions."

The Company also owns Dunhill Staffing Systems, Inc. ("Dunhill"), a well-known provider of permanent and temporary personnel services to business, professional and service organizations, government agencies, health care providers, and other employers. As of December 31, 1996, Dunhill had 135 franchisees and licensees and 14 Company-owned offices in 40 states, Puerto Rico and Canada and accounted in the nine months ended September 30, 1996 for approximately 8% of the Company's revenues.

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. Unless the context otherwise requires, the terms "Watsco" and the "Company" as used in this Prospectus refer to Watsco, Inc. and its subsidiaries.

DEPENDENCE ON KEY SUPPLIER

The Company's primary source for air conditioners is Rheem Manufacturing Company ("Rheem"), the third largest manufacturer of residential central air conditioners in the United States. Because approximately 58% of the aggregate purchases of the Company's distribution subsidiaries for the nine months ended September 30, 1996 are manufactured by Rheem, the Company is presently dependent on the acceptance of Rheem products. However, the Company believes that if Rheem products are not available, it will be able to sell other manufacturers' products. In addition, management believes that consummation of the Proposed Acquisitions with Inter-City and Carrier will decrease the Company's dependence on Rheem. See "Business--Distribution Operations" and "Relationship with Rheem Manufacturing Company."

CONTROL BY PRINCIPAL SHAREHOLDER

Upon the completion of this offering, Albert H. Nahmad, the Company's Chairman and President, and a limited partnership controlled by him, collectively will retain beneficial ownership of approximately 3% of the Common Stock and 69% of the Class B Common Stock and will have approximately 40% of the combined voting power of the outstanding Common Stock and Class B Common Stock. As a result, Mr. Nahmad will continue to have the voting power to elect all but three members of the Company's nine-person Board of Directors. See "Management."

THE OFFERING

Common Stock offered3,000,000 shares

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

Common Stock	14,860,630 shares
Class B Common Stock	2,179,699 shares
Total	17,040,329 shares

Use of proceeds To fund acquisitions and repay indebtedness.
 Common Stock--New York Stock Exchange Symbol WSO

(1) Excludes 850,821 shares of Common Stock and 652,212 shares of Class B Common Stock subject to outstanding options as of January 23, 1997.

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

	NINE MONTHS ENDED						
	YEAR ENDED DECEMBER 31,				SEPTEMBER 30,		
	1991	1992	1993	1994	1995	1995	1996
INCOME STATEMENT DATA:							
Total revenues	\$169,318	\$194,633	\$230,656	\$283,731	\$331,008	\$250,190	\$321,624
Gross profit(1)	40,906	45,559	51,930	63,212	73,298	56,547	72,182
Operating income	8,576	9,930	11,390	15,043	18,010	15,527	19,700
Net income	1,990	2,918	5,041(2)	5,762	7,250	6,033	10,564
Earnings per share: ..							
Primary	\$.33	\$.47	\$.56(2)	\$.59	\$.72	\$.61	\$.78
Fully diluted(3) ....	.32	.42	.54(2)	.58	.69	.58	.77
Supplemental earnings per share:							
Primary			\$.48(2)				
Fully diluted(3) ....			.47(2)				
Weighted average shares outstanding:							
Primary	5,981	6,239	8,803	9,489	9,873	9,762	13,363
Fully diluted(3)	7,393	7,637	9,509	9,969	10,456	10,395	13,759

SEPTEMBER 30, 1996

	AS	
	ACTUAL	ADJUSTED(4)
BALANCE SHEET DATA:		
Total assets	\$205,890	\$250,690
Long-term obligations	50,888	4,488
Shareholders' equity	115,672	206,872

- (1) Total revenues less cost of sales and direct service expenses.
- (2) Historical net income and earnings per share information includes the effect of a non-recurring receipt of insurance proceeds, which increased net income by \$706,000. Supplemental earnings per share excluding this item was \$.48 and \$.47 for primary and fully diluted earnings per share, respectively.
- (3) Calculated assuming conversion of the Company's convertible debentures that were outstanding prior to September 1996.
- (4) Adjusted to give effect to the sale by the Company of the 3,000,000 shares of Common Stock offered hereby at an estimated initial public offering price of \$32.125 per share, after deducting the estimated underwriting discount and expenses of the offering and applying the estimated net proceeds therefrom. See "Use of Proceeds" and "Capitalization."

USE OF PROCEEDS

The net proceeds from the sale of the 3,000,000 shares of Common Stock offered by the Company are estimated to be approximately \$91.2 million (\$104.9 million if the Underwriters' over-allotment option is exercised in full) at an estimated initial public offering price of \$32.125 per share and after deducting the estimated underwriting discount and expenses of the offering. The Company anticipates using the net proceeds to fund the Proposed Acquisitions and repay a portion of the Company's outstanding borrowings under its revolving credit facility.

The Company intends to use approximately \$44.8 million of the net proceeds of this offering to fund its contemplated purchases of additional wholesale distribution facilities from Carrier and Inter-City. See "Business--Proposed Acquisitions." Neither of such Proposed Acquisitions is contingent upon the completion of this offering.

The approximately \$46.4 million of remaining net proceeds of this offering will be used to repay borrowings outstanding under the Company's revolving credit agreement. Such borrowings bear interest at primarily LIBOR-based rates plus a spread that is dependent upon the Company's financial performance (30-day LIBOR plus .375% at December 31, 1996) and mature September 2001. At December 31, 1996, the Company had approximately \$48 million of outstanding borrowings under its revolving credit agreement.

If either or both of such Proposed Acquisitions are not consummated, the Company anticipates using the remaining proceeds to repay any remaining amounts of outstanding borrowings under its revolving credit agreement and for working capital and other general corporate purposes, including other possible acquisitions.

The Company continually evaluates potential acquisitions and has had discussions with a number of potential acquisition candidates; however, the Company has no agreement with respect to any potential acquisition other than the definitive agreement with respect to the Inter-City acquisition and the letter of intent with Carrier. Should suitable acquisitions or working capital needs arise that would require additional financing, the Company believes that its financial position and earnings history should permit it to obtain additional financing at competitive rates and terms. Pending application of the net proceeds as described above, the Company intends to invest the net proceeds in short-term investment grade or U.S. government interest bearing securities.

CAPITALIZATION

The following table sets forth the total capitalization of the Company as of September 30, 1996 and as adjusted to give effect to the sale of the 3,000,000 shares of Common Stock offered hereby by the Company at an assumed initial offering price of \$32.125 per share, after deducting the estimated underwriting discount and expenses of the offering and applying the estimated net proceeds therefrom as set forth in "Use of Proceeds," including the assumed consummation of the Proposed Acquisitions as of September 30, 1996.

	SEPTEMBER 30, 1996	
	ACTUAL	AS ADJUSTED
	(IN THOUSANDS)	
Long-term obligations:		
Borrowings under revolving credit agreement	\$ 49,000	\$ 2,600
Bank and other debt	1,888	1,888
Total long-term obligations	50,888	4,488
Shareholders' equity(1):		
Common Stock, \$.50 par value, 40,000,000 shares authorized; 11,546,848 issued and outstanding; 14,546,848 issued and outstanding as adjusted	5,773	7,273
Class B Common Stock, \$.50 par value, 4,000,000 shares authorized; 2,351,025 issued and outstanding	1,176	1,176
Paid-in capital	69,930	159,630
Retained earnings	38,793	38,793
Total shareholders' equity	115,672	206,872
Total capitalization	\$166,560	\$211,360

(1) Does not include 828,721 shares of Common Stock and 652,212 shares of Class B Common Stock issuable upon the exercise of outstanding stock options.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is listed on the New York Stock Exchange under the symbol "WSO." The Company's Class B Common Stock is listed on the American Stock Exchange under the symbol "WSOB."

The following table sets forth the high and low sale prices of the Common Stock and the Class B Common Stock as reported by the New York Stock Exchange and the American Stock Exchange, respectively. Stock prices have been adjusted for the three-for-two stock splits effected by the Company in May 1995 and June 1996 and are rounded to the nearest eighth.

	CLASS B			
	COMMON STOCK		COMMON STOCK	
	HIGH	LOW	HIGH	LOW
1995				
First Quarter	\$ 8	\$ 7	\$ 7 3/4	\$ 7
Second Quarter	9 1/8	7 7/8	9	7 3/4
Third Quarter	11 5/8	8 7/8	11 1/8	9
Fourth Quarter	11 7/8	10 7/8	11 5/8	10 5/8
1996				
First Quarter	17 3/8	11 1/4	16 7/8	11
Second Quarter	21	17 1/8	20 1/4	17 7/8
Third Quarter	22 1/4	16 1/8	21 7/8	15 3/4
Fourth Quarter	29 1/8	18 3/8	29 1/2	18 7/8
1997				
First Quarter (through January 23, 1997) ..	32 1/8	25 1/2	30 3/4	25 1/2

On January 23, 1997, the last reported sale prices for each of the Common Stock and the Class B Common Stock on the New York Stock Exchange and the American Stock Exchange were \$32.125 and \$30.75 per share, respectively.

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

The following selected financial data as of and for each of the years ended December 31, 1991 through 1995 have been derived from the Company's Consolidated Financial Statements, which have been audited by Arthur Andersen LLP, independent certified public accountants. The selected financial data as of September 30, 1996 and for the nine months ended September 30, 1995 and 1996 have been derived from the unaudited consolidated financial statements of the Company. In the Company's opinion, such consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position and results of operations for such periods. The results of operations for the nine months ended September 30, 1996 are not necessarily indicative of results that may be expected for the full year. The selected financial data should be read in conjunction with the Company's Consolidated Financial Statements and the notes thereto incorporated in this Prospectus by reference, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Prospectus.

	YEAR ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1991	1992	1993	1994	1995	1995	1996
INCOME STATEMENT DATA:							
Total revenues	\$169,318	\$194,633	\$230,656	\$283,731	\$331,008	\$250,190	\$321,624
Gross profit(1)	40,906	45,559	51,930	63,212	73,298	56,547	72,182
Operating income	8,576	9,930	11,390	15,043	18,010	15,527	19,700
Interest expense	(4,059)	(3,197)	(2,756)	(3,155)	(4,221)	(3,064)	(2,966)
Insurance proceeds	--	--	1,130	--	--	--	--
Income taxes	(1,973)	(2,746)	(3,819)	(4,630)	(5,234)	(4,867)	(6,601)
Minority interests(2)	(1,010)	(1,470)	(1,287)	(1,636)	(1,586)	(1,744)	(116)
Net income	1,990	2,918	5,041 (3)	5,762	7,250	6,033	10,564
Earnings per share:							
Primary	\$.33	\$.47	\$.56 (3)	\$.59	\$.72	\$.61	\$.78
Fully diluted(4) .....	.32	.42	.54 (3)	.58	.69	.58	.77
Weighted average shares							
outstanding:							
Primary	5,981	6,239	8,803	9,489	9,873	9,762	13,363
Fully diluted(4)	7,393	7,637	9,509	9,969	10,456	10,395	13,759
Cash dividends declared per share:							
Common Stock	\$.15	\$.10	\$.11	\$.11	\$.13	\$.09	\$.10
Class B Common Stock .....	.13	.10	.11	.11	.13	.09	.10

	DECEMBER 31,					SEPTEMBER 30,
	1991	1992	1993	1994	1995	1996
BALANCE SHEET DATA:						
Working capital	\$23,763	\$27,800	\$ 39,262	\$ 40,095	\$ 41,169	\$127,751
Total assets	81,767	81,138	109,685	119,664	144,884	205,890
Long-term obligations	14,830	13,539	7,848	6,724	6,318	50,888
Minority interests ...	7,373	8,229	11,553	11,857	12,622	--
Shareholders' equity .	20,832	25,272	41,754	46,816	53,756	115,672

- (1) Total revenues less cost of sales and direct service expenses.
- (2) Represents the pro rata share of earnings allocated to Rheem as a result of its 20% ownership interests in Gemaire and Comfort Supply and 50% common equity ownership interest (49.5% prior to January 1, 1992) in Heating & Cooling Supply, Inc. Effective March 1996, the Company acquired these minority interests in exchange for 1,446,542 shares of Common Stock.
- (3) Includes the effect of a non-recurring receipt of insurance proceeds, which increased net income by \$706,000. Excluding this item, primary and fully diluted earnings per share would have been \$.49 and \$.47, respectively.
- (4) Calculated assuming conversion of the Company's convertible debentures that were outstanding prior to September 1996.

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

GENERAL

From its inception through 1988, Watsco was primarily a manufacturer of replacement parts for air conditioning, heating and refrigeration equipment. Since that time, the Company has significantly increased its size and market presence in the climate control industry through a number of acquisitions.

In January 1989, the Company and Rheem acquired 80% and 20%, respectively, of the capital stock of Gemaire Distributors, Inc. ("Gemaire"), a distributor of residential central air conditioners in Florida, for an aggregate purchase price of approximately \$17.1 million. In October 1990, the Company and Rheem each acquired 50% of the common stock of Heating & Cooling Supply, Inc. ("Heating & Cooling"), a distributor of residential central air conditioners in southern California and Arizona, for an aggregate purchase price of approximately \$31.5 million. In April 1993, the Company and Rheem acquired 80% and 20%, respectively, of the capital stock of Comfort Supply, Inc. ("Comfort Supply"), a distributor of residential central air conditioners in Texas, for an aggregate purchase price of approximately \$4.0 million.

In March 1995, Gemaire purchased the operating assets and assumed certain liabilities of H.B. Adams, Inc., a wholesale distributor of air conditioning, heating and refrigeration products located in Tampa, Florida, for approximately \$7.8 million. In October 1995, the Company purchased the operating assets and assumed certain liabilities of Central Air Conditioning Distributors, Inc. ("Central Air Conditioning"), a North Carolina-based distributor of air conditioning, heating and refrigeration products, for approximately \$9.0 million.

In April 1996, the Company purchased the operating assets and assumed certain liabilities of Three States Supply Co., Inc. ("Three States"), a Tennessee-based wholesale distributor of air conditioning, heating and building supplies, for approximately \$14 million. Other smaller acquisitions have been made over the past three years to gain market share and to enter into new market areas, including the Company's 1996 acquisitions of the capital stock of Serviceman Supplies, Inc. ("Serviceman") and Coastal Supply Company, Inc. ("Coastal"). See "Business--Business and Acquisition Strategy." In addition, in March 1996, the Company acquired Rheem's minority common equity interests in Gemaire, Heating & Cooling and Comfort Supply in exchange for 1,446,542 shares of Common Stock.

The Company's acquisitions have been accounted for under the purchase method of accounting and, accordingly, the result of their operations have been included in the Company's consolidated results beginning on their respective dates of acquisition. As a result of the significant impact of the Company's acquisitions, the Company's results of operations are not necessarily comparable on a period-to-period basis.

The Company operates principally in two industry segments: the climate control segment and the personnel services segment. The climate control segment includes the Company's distribution and manufacturing subsidiaries.

RESULTS OF OPERATIONS

The following table presents certain items of the Company's Consolidated Financial Statements for the years ended December 31, 1994 and 1995 and for the nine months ended September 30, 1995 and 1996, expressed as a percentage of total revenues:

	YEAR ENDED DECEMBER 31,		NINE MONTHS ENDED SEPTEMBER 30,	
	1994	1995	1995	1996
Total revenues	100.0%	100.0%	100.0%	100.0%
Cost of sales and direct service expenses ..	77.7	77.9	77.4	77.6
Gross profit	22.3	22.1	22.6	22.4
Selling, general and administrative expenses	17.0	16.7	16.4	16.3
Operating income	5.3	5.4	6.2	6.1
Investment income, net	--	.1	.1	.2
Interest expense	1.1	1.2	1.2	.9
Income taxes	1.6	1.6	2.0	2.1
Minority interests .....	.6	.5	.7	--
Net income	2.0%	2.2%	2.4%	3.3%

COMPARISON OF NINE MONTHS ENDED SEPTEMBER 30, 1996 WITH NINE MONTHS ENDED SEPTEMBER 30, 1995

Revenues for the nine months ended September 30, 1996 increased \$71.4 million, or 29%, compared to the same period in 1995. In the climate control segment, revenues increased \$70.4 million, or 31%. Excluding the effect of acquisitions, revenues for the climate control segment increased \$20.6 million, or 9%. Such increase was primarily due to strong replacement sales and increased homebuilding activity.

Gross profit for the nine months ended September 30, 1996 increased \$15.6 million, or 28%, compared to the same period in 1995. Excluding the effect of acquisitions, gross profit increased \$2.9 million, or 5%, primarily as a result of the aforementioned revenue increases. Gross profit margin for the nine-month period decreased to 22.4% in 1996 from 22.6% in 1995 and, excluding the effect of acquisitions, decreased to 21.9% in 1996 from 22.6% in 1995. These margin decreases were primarily due to certain vendor price increases in late 1995, which the Company did not begin passing on to customers until late in the first quarter of 1996, and additional price increases in mid-1996, which were not fully passed on to customers in the second and third quarters.

Selling, general and administrative expenses for the nine months ended September 30, 1996 increased \$11.5 million, or 28%, compared to the same period in 1995, primarily due to selling and delivery costs related to increased sales. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$2.9 million, or 7%, primarily due to sales volume increases. Selling, general and administrative expenses as a percent of revenues decreased to 16.3% in 1996 from 16.4% in 1995 and, excluding the effect of acquisitions, decreased to 16.2% in 1996 from 16.4% in 1995. These decreases were primarily the result of a larger revenue base over which to spread fixed costs.

Interest expense for the nine months ended September 30, 1996 decreased \$98,000, or 3%, compared to the same period in 1995 and, excluding the effect of acquisitions, decreased \$616,000, or 20%. These decreases were primarily due to lower average interest rates on borrowings.

Minority interest expense for the nine months ended September 30, 1996 decreased \$1.6 million compared to the same period in 1995. This decrease was due to the Company's acquisition of minority common equity interests in its distribution subsidiaries in March 1996.

The effective tax rate for the nine months ended September 30, 1996 was 38.2% compared to 38.5% for the same period in 1995. The decrease was primarily the result of tax planning strategies which were implemented during 1996.

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 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.

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.

LIQUIDITY AND CAPITAL RESOURCES

On September 25, 1996, the Company executed a bank-syndicated revolving credit agreement, which provides for borrowings of up to \$130 million, expiring on September 30, 2001. The unsecured agreement replaced the Company's previous revolving credit facilities and will be used to fund acquisitions and seasonal working capital needs and for other general corporate purposes. Borrowings under the revolving credit agreement, which totaled \$48 million at December 31, 1996, bear interest at primarily LIBOR-based rates plus a spread that is dependent upon the Company's financial performance (30-day LIBOR plus .375% at December 31, 1996). The revolving credit agreement contains financial covenants with respect to the Company's consolidated net worth, interest and debt coverage ratios, and limits capital expenditures and dividends in addition to other restrictions.

The Company has adequate availability of capital from operations and its revolving credit agreement to fund present operations, the Proposed Acquisitions and anticipated growth, including expansion in the Company's current and targeted market areas. The Company continually evaluates

potential acquisitions and has held discussions with a number of acquisition candidates; however, the Company currently has no agreement with respect to any potential acquisition other than the Proposed Acquisitions. See "Business--Proposed Acquisitions." Should suitable acquisition opportunities or working capital needs arise that would require additional financing, the Company believes that its financial position and earnings history provide a solid base for obtaining additional financing resources at competitive rates and terms.

Working capital increased to \$127.8 million at September 30, 1996 from \$81.4 million at December 31, 1995. In March 1996, the Company completed a public offering of 2,355,000 shares of Common Stock that yielded net proceeds of \$32.6 million. In April 1996, the Company used approximately \$14.0 million of the net proceeds to fund the acquisition of Three States, a Memphis, Tennessee-based distributor of supplies used primarily in air conditioning and heating systems, and \$2.5 million to repay a 12% subordinated note. In September 1996, the Company used approximately \$15.7 million of the remaining proceeds from the offering to reduce borrowings under the Company's previous revolving credit agreements.

Cash and cash equivalents increased \$858,000 for the nine-month period ended September 30, 1996. Principal sources of cash were net proceeds from the issuance of common stock, borrowings under the revolving credit agreements and profitable operations. The principal uses of cash were to fund working capital needs, acquire Three States, repay long-term obligations and fund capital expenditures. Inventory purchases are substantially funded by borrowings under revolving credit agreements. The increase in inventory in 1996 was higher than 1995 primarily due to higher levels of inventory carried by the distribution operations necessary to meet increased demand caused by growth.

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 is highest in the second and third quarters. Demand related to the new construction market varies according to the season, with increased demand generally from March through October.

BUSINESS

GENERAL

The Company is the largest distributor of residential central air conditioners in the United States, with leading positions in Florida, Texas and California, the three largest air conditioning markets in the country, as well as other large markets in the U.S. sunbelt. 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 approximately \$331 million in 1995 and earnings per share have increased at a compound annual growth rate of 22%. Total revenues and earnings per share for the nine months ended September 30, 1996 increased 29% and 33%, respectively, over the comparable period in 1995. Since 1989, Watsco has acquired 11 air conditioning distributors and believes it is the only company pursuing a consolidation strategy by making significant acquisitions in the highly fragmented air conditioning distribution industry. The Company estimates there are over 700 air conditioner distributors in the sunbelt. All of the Company's significant acquisitions have to date been accretive to earnings per share. In addition, the Company achieved internal sales growth of 8% and 9% for 1995 and the nine months ended September 30, 1996, respectively.

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

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
REVENUES:					
Climate control segment:					
Distribution	\$181,524	\$229,796	\$276,176	\$209,160	\$277,541
Manufacturing	21,543	23,637	22,763	17,448	19,484
Total climate control segment..	203,067	253,433	298,939	226,608	297,025
Personnel services segment	27,589	30,298	32,069	23,582	24,599
Total	\$230,656	\$283,731	\$331,008	\$250,190	\$321,624
OPERATING INCOME:					
Climate control segment:					
Distribution	\$ 11,643	\$ 14,694	\$ 17,154	\$ 15,233	\$ 20,157
Manufacturing	946	1,707	1,247	1,040	1,416
Total climate control segment..	12,589	16,401	18,401	16,273	21,573
Personnel services segment	422	1,216	1,370	882	1,018
Total	\$ 13,011	\$ 17,617	\$ 19,771	\$ 17,155	\$ 22,591

RESIDENTIAL CENTRAL AIR CONDITIONING INDUSTRY

The Company estimates that in 1995 the market for residential central air conditioners and related supplies in the sunbelt was over \$7 billion and has grown at an annual rate of 6.3% since 1990. Residential central air conditioners are manufactured primarily by seven major companies that account for substantially all units shipped in the U.S. These companies are: Carrier Corporation (a subsidiary of United Technologies Corporation), Goodman Manufacturing Corporation, Rheem Manufacturing Company, The Trane Company (a subsidiary of American Standard Companies Inc.), York Air Conditioning & Refrigeration, Inc., Inter-City Products Corporation and Lennox Industries, Inc.

The major manufacturers distribute their products primarily through independent distributors who in turn supply the equipment and related parts and supplies to contractors and dealers nationwide who

sell to, and install the products for, the consumer. Several of the major manufacturers distribute a significant portion of their products through factory-owned distribution organizations. Rheem distributes substantially all of its central air conditioners through independent distributors.

Residential central air conditioners are sold to the replacement and the homebuilding markets. The replacement market has increased substantially in size over the past ten years, surpassing the homebuilding market in significance as a result of the aging of the installed base of residential central air conditioners, the introduction of new energy efficient models and the upgrading of existing homes to central air conditioning. According to the ARI, over 66 million central air conditioners have been installed in the United States since 1975. Management believes that approximately 60% of these units were installed in the sunbelt. Many of the units installed from the mid-1970s to the mid-1980s are reaching the end of their useful lives, thus providing a growing replacement market. The mechanical life of central air conditioners varies by region due to usage and is estimated to range from 8 to 12 years in Florida and Texas to approximately 18 years in California.

BUSINESS AND ACQUISITION STRATEGY

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

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

The Company's acquisition strategy is to establish a network of distribution facilities across the sunbelt and, since 1989, it has acquired 11 air conditioning distributors. The Company believes it is the only company pursuing a consolidation strategy by making significant acquisitions in the highly fragmented air conditioning distribution industry. The Company's growth strategy seeks to enhance the value of acquired operations by better serving the "one-stop" shopping needs of customers. This includes broadening product lines and committing other capital resources to develop the acquired businesses, including expanding existing branches and opening new branches. The Company also runs its distribution operations on a decentralized basis in recognition of the value of the long-term relationships established between the distributors and their customers. The Company seeks to preserve the identity of acquired businesses by retaining their management and sales organizations, maintaining the product brand name offerings previously distributed by them, and selectively expanding complementary product offerings. The Company believes this strategy builds the value of the acquired operations by creating additional sales opportunities, improving operating efficiencies and attaining greater leveraging of expenses.

The Company currently operates 102 branch warehouses in 14 states. This geographic diversification across the sunbelt minimizes the impact of unseasonably mild weather on the replacement of air conditioners.

The following is a description of the Company's acquisitions completed in 1996:

THREE STATES SUPPLY CO., INC. In April 1996, the Company acquired certain assets of Three States, a Tennessee-based distributor of air conditioning, heating and other building supplies. Three States sells to approximately 4,000 licensed mechanical and air conditioning contractors from eleven branches located in five states. Three States had 1995 revenues of approximately \$48 million. Since its acquisition, the Company has expanded the products offered by Three States to include air conditioning equipment manufactured by Nordyne, Inc. (a subsidiary of Nortek, Inc.).

SERVICEMAN SUPPLIES, INC. In October 1996, the Company acquired Serviceman, a Texas-based wholesale distributor of residential central air conditioners and related parts and supplies. Serviceman sells to approximately 1,500 licensed air conditioning and heating contractors from six branches which primarily cover the Dallas-Ft. Worth metropolitan area. Serviceman reported revenues of approximately \$10 million for its fiscal year ended October 31, 1996.

COASTAL SUPPLY COMPANY, INC. In December 1996, the Company acquired Coastal, a Georgia-based wholesale distributor of parts and supplies used in heating and air conditioning systems. Coastal primarily sells HVAC-related parts and supplies to approximately 2,000 air conditioning and heating contractors from seven branches in Georgia and three in South Carolina. Revenues for 1995 were approximately \$8 million.

PROPOSED ACQUISITIONS

On January 23, 1997, the Company entered into a definitive agreement with Inter-City Products Corporation (USA) to acquire Inter-City's Coastline Distribution, Inc. and four other Inter-City factory branches for a purchase price based on the approximate net book value of the stock and assets to be purchased. Coastline is an Orlando, Florida-based wholesale distributor of residential air conditioners and related parts and supplies. It operates 21 branches throughout Florida, Georgia and Alabama. The other four branches are located in Atlanta, Georgia; Charlotte, North Carolina; Los Angeles, California; and Savage, Maryland. Based upon information provided by Inter-City, the 25 branch locations serve over 5,200 customers and expect to report approximately \$93 million of 1996 revenues. The branches will operate as a new subsidiary of the Company and distribute residential and light commercial air conditioning and heating equipment manufactured by Inter-City. Distribution agreements to be executed in connection with the closing of the transaction will provide that the acquired branches will not distribute competing air-conditioning and heating equipment. The transaction is expected to close in January 1997.

In December 1996, the Company announced that it had entered into a letter of intent with Carrier Corporation to acquire the assets and assume certain liabilities of Carrier's Comfort Products and Central Plains distribution operations. The businesses operate from eight branches serving primarily Missouri, Kansas, Iowa, North Dakota, Nebraska and South Dakota. Carrier has advised the Company that such businesses expect to report 1996 revenues of approximately \$65 million. The Carrier letter of intent provides that the acquired branches will not sell competing products in the specified trade area. The proposed Carrier transaction will give Watsco a presence in the midwestern United States, further expanding and diversifying the Company's geographic and product bases. Although the Company will continue to focus its growth strategy on the sunbelt, it also evaluates potential acquisitions in other areas of the country when presented with attractive opportunities such as the Carrier transaction. While the Company's sunbelt focus is primarily based on selling air conditioning equipment and related products, the Company also has experience selling heating equipment. Management believes that the Carrier transaction will further expand this experience and will enhance the Company's ability to evaluate, complete and develop other acquisitions outside of the sunbelt should such opportunities arise.

The Company expects to use a portion of the net proceeds of this offering to pay for the acquisitions from Inter-City and Carrier. However, such acquisitions are not contingent upon the completion of this offering. See "Use of Proceeds."

DISTRIBUTION OPERATIONS

PRODUCTS. The Company markets a complete line of residential central air conditioners (primarily under the Rheem brand name) and related parts and supplies and maintains sufficient inventory to meet its customers' immediate needs. The Company's strategy is to provide every product a contractor generally would require in order to install or repair a residential or light commercial central air conditioner. Such products include residential central air conditioners ranging from 1 1/2 to 5 tons*, light commercial air conditioners ranging up to 20 tons, insulation, grills, sheet metal and other ductwork, copper tubing, concrete pads, and tape. In addition, the Company also sells products such as electric and gas heating units, air-to-air heat pumps and rooftop equipment. Sales of air conditioning and heating equipment accounted for approximately 63% and 58% of the distribution subsidiaries' revenues for 1995 and the nine months ended September 30, 1996, respectively. Sales of parts and supplies (currently approximately 50,000 different parts and supplies) comprised the remaining portions of revenues. In 1995 and the nine months ended September 30, 1996, purchases of Rheem products represented approximately 58% of the aggregate purchases of the Company's distribution subsidiaries. Any significant interruption in the delivery of Rheem's products would inhibit the Company's ability to continue to maintain its current inventory levels and could adversely affect the Company's business. The Company's future results of operations are also materially dependent upon the continued market acceptance of Rheem products and the ability of Rheem to continue to manufacture products that comply with laws relating to environmental and efficiency standards.

DISTRIBUTION AND SALES. The Company currently operates out of 102 branch warehouses located in regions of the sunbelt which the Company believes have favorable demographic trends. The Company maintains well-stocked inventories at each warehouse location to meet the immediate needs of its customers. This is accomplished by transporting inventory between warehouses daily and either directly delivering products to customers with the Company's fleet of approximately 250 trucks or making the products available for pick-up at the nearest branch. At December 31, 1996, the Company had approximately 137 commissioned salespeople who averaged 13 years of experience in the residential central air conditioning equipment industry.

CUSTOMERS AND CUSTOMER SERVICE. The Company sells to contractors and dealers who service the new construction and replacement markets for residential and light commercial central air conditioners. In 1996, the Company served over 23,000 customers, with no single customer accounting for more than 2% of consolidated revenues. The Company focuses on providing products where and when the customer needs them, technical support by phone or on site as required, and quick and efficient service at the branch locations. Management believes that the Company successfully competes with other distributors in the residential and light commercial central air conditioning market primarily on the basis of its experienced sales organization, strong service support, high quality reputation, extensive branch network and broad product lines.

MANUFACTURING OPERATIONS

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

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* The cooling 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.

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.

RELATIONSHIP WITH RHEEM MANUFACTURING COMPANY

The Company believes that it maintains a unique and mutually beneficial relationship with Rheem, the third largest manufacturer of residential central air conditioners 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 is expected to increase as units installed in the 1970s and 1980s wear out and are 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.

The Company is Rheem's largest distributor and 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: the State of Florida; the eastern half of Texas (including the Dallas, Houston, San Antonio and Austin metropolitan areas), southern and central California; the State of Arizona; the State of 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.

Rheem acquired minority common equity ownership interests in Gemaire (20%), Comfort Supply (20%) and Heating & Cooling Supply (50%) as a joint venture partner in the acquisition of each of these subsidiaries. In March 1996, the Company exchanged 1,446,542 shares of Common Stock for Rheem's minority common equity interests. Following this offering, Rheem will own approximately 9.7% of the outstanding Common Stock of the Company. In addition, Rheem's President and Chief Executive Officer serves as one of the Company's directors.

Gemaire, Comfort Supply and Heating & Cooling operate under distribution agreements with Rheem that extend through 2006 with annual renewals thereafter. The Company's fourth distribution agreement with Rheem (Central Air Conditioning) can be terminated at any time without cause by either party. The Gemaire, Comfort Supply and Heating & Cooling distribution agreements contain provisions limiting the sale of products by such subsidiaries 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 sales of parts and supplies, the Company does not believe that these limitations have a material effect on its operations. Except for the limitations set forth in Gemaire's, Comfort Supply's and Heating & Cooling's distribution agreements and the distribution arrangements to be entered into in connection with the Proposed Acquisitions, the Company may distribute other manufacturers' lines of air conditioning equipment.

PERSONNEL SERVICES

Dunhill, founded in 1952, is one of the nation's best known personnel service networks. Through franchised, licensed, and company-owned offices in 40 states, Puerto Rico and Canada, Dunhill

provides permanent placement and temporary help services to business, professional and service organizations, government agencies, health care providers, and other employers. As of December 31, 1996, Dunhill's operations consisted of 110 franchised permanent placement offices and 18 franchised, 7 licensed, and 14 company-owned temporary personnel service offices. Dunhill's franchisees operate their businesses autonomously within the framework of the Company's policies and standards, and recruit, employ, and pay their own employees, including temporary employees. Dunhill's permanent placement division recruits primarily middle-management, sales, technical, administrative, and support personnel for permanent employment in a wide variety of industries and positions. The fees paid by employers to Dunhill for its permanent placement services are typically contingent upon the Company's successful placement of an employee and are generally a percentage of the annual compensation to be paid to the new employee.

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

COMPETITION

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

MANAGEMENT

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

NAME	AGE	POSITION WITH THE COMPANY
DIRECTORS AND EXECUTIVE OFFICERS		
Albert H. Nahmad	56	Chairman of the Board and President
Ronald P. Newman	50	Chief Financial Officer and Secretary
Barry S. Logan	34	Treasurer
D.A. Coape-Arnold	79	Director
David B. Fleeman(1)	83	Director
James S. Grien(2)	39	Director
Paul F. Manley(1)(3)	60	Director
Bob L. Moss(2)	49	Director
Roberto Motta	83	Director
Alan H. Potamkin(3)	48	Director
Gary L. Tapella	53	Director
PRINCIPAL SUBSIDIARY PRESIDENTS		
Kenneth A. Perkins	59	President of Gemaire
Robert M. Lazarus	54	President of Heating & Cooling
Eric A. Young	38	President of Comfort Supply
Michael B. Huff	35	President of Central Air Conditioning
Charles M. Brejot	71	President of Three States
Neal Fischer	45	President of Watsco Components, Inc.
Daniel H. Abramson	47	President of Dunhill

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

ALBERT H. NAHMAD has served as Chairman of the Board and President of the Company since 1973. Mr. Nahmad is the general partner of Alna Capital Associates, a New York limited partnership, which is the principal shareholder of the Company. Mr. Nahmad also serves as a member of the Board of Directors of the Panama Canal Commission, a United States federal agency. Additionally Mr. Nahmad is a director of American Bankers Insurance Group, Inc. and Pediatrix Medical Group, Inc., publicly held companies.

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

BARRY S. LOGAN has served as Treasurer of the Company since 1996. From 1992 to 1996, Mr. Logan served as Controller of the Company. Mr. Logan, a certified public accountant, was associated with the accounting firm of Arthur Andersen LLP from 1985 to 1992.

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

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

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

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

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

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

ALAN H. POTAMKIN has been a director of the Company since 1994. Since 1970, Mr. Potamkin has served as President of Potamkin Companies, one of the nation's largest retail automobile dealers. In addition, Mr. Potamkin is an owner of various media properties and an owner of Office Depot, Inc. franchises in eastern Europe.

GARY L. TAPPELLA has been a director of the Company since April 1996. Since 1991, Mr. Tapella has served as President and Chief Executive Officer of Rheem, one of the nation's largest manufacturers of air conditioning, heating and water heating equipment.

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

ROBERT M. LAZARUS has served as President of Heating & Cooling since 1996. From 1995 to 1996, he served as Heating & Cooling's Executive Vice President and as its Vice President--Marketing from 1987 to 1995. From 1976 to 1987, he was employed in various capacities by Heating & Cooling.

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

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

CHARLES M. BREJOT has served as President of Three States since 1978. From 1969 to 1978, he served as Three States' Executive Vice President and has been employed at Three States in various capacities since 1951.

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

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

The Company's Articles of Incorporation provide for the Board of Directors to have up to nine members, to be divided as nearly as possible in three equal divisions to serve in staggered terms of

three years. Each division currently consists of one director to be elected by the holders of Common Stock and two directors to be elected by the holders of Class B Common Stock. The number of members comprising the Board of Directors is presently set at nine, three of whom are Common Stock directors and six of whom are Class B directors. At present Messrs. Manley (Common Stock), Nahmad (Class B) and Coape-Arnold (Class B) serve until the 1999 annual meeting of shareholders, Messrs. Potamkin (Common Stock), Motta (Class B) and Tapella (Class B) serve until the 1997 annual meeting of shareholders and Messrs. Grien (Common Stock), Fleeman (Class B) and Moss (Class B) serve until the 1998 annual meeting of shareholders. Upon completion of this offering, Albert H. Nahmad, the Company's Chairman and President, and a limited partnership controlled by him, collectively will retain beneficial ownership of approximately 3% of the Common Stock and 69% of the Class B Common Stock and will have approximately 40% of the combined voting power of the outstanding Common Stock and Class B Common Stock. As a result, Mr. Nahmad will continue to have the voting power to elect all but three members of the Company's nine-person Board of Directors.

UNDERWRITING

Subject to the terms and conditions of the Underwriting Agreement, the Company has agreed to sell to each of the Underwriters named below, and each of such Underwriters, for whom Goldman, Sachs & Co., Prudential Securities Incorporated, Smith Barney Inc. and Robert W. Baird & Co. Incorporated are acting as representatives, has severally agreed to purchase from the Company, the respective number of shares of Common Stock set forth opposite its name below:

UNDERWRITER -----	NUMBER OF SHARES OF COMMON STOCK -----
Goldman, Sachs & Co.	
Prudential Securities Incorporated.....	
Smith Barney Inc.	
Robert W. Baird & Co. Incorporated.....	
Total	----- 3,000,000 =====

Under the terms and conditions of the Underwriting Agreement, the Underwriters are committed to take and pay for all of the shares offered hereby, if any are taken.

The Underwriters propose to offer the shares of Common Stock in part directly to the public at the initial public offering price set forth on the cover page of this Prospectus, and in part to certain securities dealers at such price less a concession of \$ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of \$ per share to certain brokers and dealers. After the shares of Common Stock are released for sale to the public, the offering price and other selling terms may from time to time be varied by the representatives.

The Company has granted the Underwriters an option exercisable for 30 days after the date of this Prospectus to purchase up to an aggregate of 450,000 additional shares of Common Stock to cover over-allotments, if any. If the Underwriters exercise their over-allotment option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the 3,000,000 shares of Common Stock offered.

The Company, its officers and directors and certain shareholders have agreed that during the period beginning from the date of this Prospectus and continuing to and including the date 90 days after the date of this Prospectus, not to offer, sell, contract to sell or otherwise dispose of any securities of the Company (other than pursuant to employee stock option plans existing, or on the conversion or exchange of convertible or exchangeable securities outstanding, on the date of this Prospectus) that are substantially similar to the shares of Common Stock or that are convertible into or exchangeable for, or that represent the right to receive, Common Stock or any such substantially similar securities, without the prior written consent of the representatives except for the shares of Common Stock offered in connection with the offering.

The Company has agreed to indemnify the several Underwriters against certain liabilities under the Securities Act of 1933.

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

LEGAL MATTERS

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

EXPERTS

The financial statements and schedules of the Company included (or incorporated by reference) in the Company's Annual Report on Form 10-K for the year ended December 31, 1995 incorporated by reference in this Prospectus and Registration Statement have been audited by Arthur Andersen LLP, independent certified public accountants, as indicated in their reports with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in giving said reports.

The financial statements of Three States included in the Company's Form 8-K dated April 12, 1996 incorporated by reference in this Prospectus and Registration Statement have been audited by Rhea & Ivy, P.L.C., independent certified public accountants, as indicated in their report with respect thereto, and are incorporated herein in reliance upon the authority of said firm as experts in giving said reports.

AVAILABLE INFORMATION

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

This Prospectus constitutes a part of a Registration Statement on Form S-3 filed by the Company with the Commission under the Securities Act of 1933, as amended. This Prospectus omits certain information contained in the Registration Statement, and reference is hereby made to the Registration Statement and related exhibits for further information with respect to the Company and the securities offered hereby. Any statements contained herein concerning the provisions of any document are not necessarily complete, and in such instance reference is made to the copy of such document filed as an exhibit to the Registration Statement or otherwise filed with the Commission. Each such statement is qualified in its entirety by such reference. Copies of the Registration Statement may be obtained from the Commission's principal office at 450 Fifth Street, N.W., Washington, D.C. 20549, upon payment of the fees prescribed by the Commission, or may be examined, without charge, at the public reference facilities maintained by the Commission. The Commission also maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy and information statements and other information filed electronically with the Commission.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company (File No. 1-5581) with the Commission are incorporated herein by reference: (1) the Company's Annual Report on Form 10-K for the year ended

December 31, 1995; (2) the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1996, June 30, 1996 and September 30, 1996; (3) the Company's Current Report on Form 8-K, dated April 12, 1996; and (4) the Company's Registration Statement on Form 8-A filed May 4, 1994, registering the Company's Common Stock under Section 12(b) of the Exchange Act. All documents filed by the Company with the Commission pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act subsequent to the date hereof and prior to the termination of the offering of the Common Stock registered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing such documents. Any statements contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that the statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. The Company will provide without charge to each person to whom this Prospectus is delivered, upon a written or oral request of such person, a copy of any or all of the foregoing documents incorporated by reference into this Prospectus (other than exhibits to such documents, unless such exhibits are specifically incorporated by reference into such documents). Request for such copies should be delivered to Ronald P. Newman, Chief Financial Officer, 2665 South Bayshore Drive, Suite 901, Coconut Grove, Florida 33133, telephone (305) 858-0828.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR ANY OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE.

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3,000,000 SHARES

WATSCO, INC.

COMMON STOCK
 (PAR VALUE \$.50 PER SHARE)

 WATSCO

 GOLDMAN, SACHS & CO.

PRUDENTIAL SECURITIES INCORPORATED

SMITH BARNEY INC.

ROBERT W. BAIRD & CO.
 INCORPORATED

REPRESENTATIVES OF THE UNDERWRITERS

PART II
INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

Securities and Exchange Commission registration fee	\$ 30,789
NASD filing fee	9,557
New York Stock Exchange listing fees	40,230
Blue Sky fees and expenses	3,500
Printing and engraving expenses	60,000
Legal fees and expenses	75,000
Accounting fees and expenses	50,000
Miscellaneous	80,924

Total	\$350,000
	=====

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

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

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

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

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

ITEM 16. EXHIBITS

EXHIBIT NO. ---	DESCRIPTION -----
1.1	Proposed form of Underwriting Agreement**
2.1	Asset Purchase Agreement dated March 27, 1996, by and among TSSC Acquisition, Inc., Three States Supply Co., Inc. and UIS, Inc. (filed as Exhibit 10.19 to the Company's Form 8-K dated April 12, 1996 and incorporated herein by reference).
2.2	Stock and Asset Purchase Agreement, dated as of January 23, 1997, by and between A&C Distributors, Inc. and Inter-City Products Corporation (USA).**
4.1	Company's Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated June 30, 1995 and incorporated herein by reference).
4.2	Company's Amended Bylaws (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1985 and incorporated herein by reference).
5.1	Opinion of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A. as to the validity of the Common Stock being registered.*
23.1	Consent of Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A. (included in its opinion filed as Exhibit 5.1).*
23.2	Consent of Arthur Andersen LLP**
23.3	Consent of Rhea & Ivy, P.L.C.**
24.1	Power of Attorney (included on page II-3).

- -----
* Previously filed.
** Filed herewith.

ITEM 17. UNDERTAKINGS.

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

(b) The undersigned registrant hereby undertakes that:

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

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

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Miami, State of Florida, on January 23, 1997.

WATSCO, INC.

By: /s/ RONALD P. NEWMAN

 Ronald P. Newman, Chief Financial Officer
 and Secretary

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Albert H. Nahmad and Ronald P. Newman, or any one of them, as his true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution for him and in his name, place and stead in any and all capacities to execute in the name of each such person who is then an officer or director of the Registrant any and all amendments (including post-effective amendments) to this Registration Statement, and any registration statement relating to the offering hereunder pursuant to Rule 462 under the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto the attorneys-in-fact and agents and each of them full power and authority to do and perform each and every act and thing required or necessary to be done in and about the premises as fully as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

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

SIGNATURE -----	TITLE -----	DATE ----
/s/ ALBERT H. NAHMAD ----- Albert H. Nahmad	Chairman of the Board (principal executive officer)	January 23, 1997
/s/ RONALD P. NEWMAN ----- Ronald P. Newman	Chief Financial Officer and Secretary (principal financial and accounting officer)	January 23, 1997
/s/ D. A. COAPE-ARNOLD ----- D. A. Coape-Arnold	Director	January 23, 1997
/s/ DAVID B. FLEEMAN ----- David B. Fleeman	Director	January 23, 1997
/s/ JAMES S. GRIEN ----- James S. Grien	Director	January 23, 1997

SIGNATURE -----	TITLE -----	DATE -----
/s/ PAUL F. MANLEY ----- Paul F. Manley	Director	January 23, 1997
/s/ BOB L. MOSS ----- Bob L. Moss	Director	January 23, 1997
/s/ ROBERTO MOTTA ----- Roberto Motta	Director	January 23, 1997
/s/ ALAN H. POTAMKIN ----- Alan H. Potamkin	Director	January 23, 1997
/s/ GARY L. TAPELLA ----- Gary L. Tapella	Director	January 23, 1997

Index To Exhibits

Exhibit No.	Description
1.1	Proposed form of Underwriting Agreement.
2.2	Stock and Asset Purchase Agreement, dated as of January 23, 1997, by and between A&C Distributors, Inc. and Inter-City Products Corporation (USA).
23.2	Consent of Arthur Andersen LLP.
23.3	Consent of Rhea & Ivy, P.L.C.

WATSCO, INC.
 COMMON STOCK
 PAR VALUE \$0.50 PER SHARE

 UNDERWRITING AGREEMENT

_____, 1997

Goldman, Sachs & Co.,
 Prudential Securities Incorporated,
 Smith Barney Inc.,
 Robert W. Baird & Co. Incorporated,
 As representatives of the several Underwriters
 named in Schedule I hereto,
 c/o Goldman, Sachs & Co.,
 85 Broad Street,
 New York, New York 10004

Ladies and Gentlemen:

Watsco, Inc., a Florida corporation (the "Company"), proposes, subject to the terms and conditions stated herein, to issue and sell to the Underwriters named in Schedule I hereto (the "Underwriters") an aggregate of 3,000,000 shares (the "Firm Shares") and, at the election of the Underwriters, up to 450,000 additional shares (the "Optional Shares") of Common Stock, par value \$0.50 per share ("Stock") of the Company (the Firm Shares and the Optional Shares that the Underwriters elect to purchase pursuant to Section 2 hereof being collectively called the "Shares").

1. The Company represents and warrants to, and agrees with, each of the Underwriters that:

(a) A registration statement on Form S-3 (File No. 333-19803) (the "Initial Registration Statement") in respect of the Shares has been filed with the Securities and Exchange Commission (the "Commission"); the Initial Registration Statement and any post-effective amendment thereto, each in the form heretofore delivered to you, and, excluding exhibits thereto but including all documents incorporated by reference in the prospectus contained therein, to you for each of the other Underwriters, have been declared effective by the Commission in such form; other than a registration statement, if any, increasing the size of the offering (a "Rule 462(b) Registration Statement"), filed pursuant to Rule 462(b) under the Securities Act of 1933, as amended (the "Act"), which became effective upon filing, no other document with respect to the Initial Registration Statement or document incorporated by reference therein has heretofore been filed with the Commission; and no stop order suspending the effectiveness of the Initial Registration Statement, any post-effective amendment thereto or the Rule 462(b) Registration Statement, if any, has been issued and no proceeding for that purpose has been initiated or threatened by the Commission (any preliminary prospectus included in the Initial Registration Statement or filed

with the Commission pursuant to Rule 424(a) of the rules and regulations of the Commission under the Act is hereinafter called a "Preliminary Prospectus"); the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including (i) the information contained in the form of final prospectus filed with the Commission pursuant to Rule 424(b) under the Act in accordance with Section 5(a) hereof and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective and (ii) the documents incorporated by reference in the prospectus contained in the registration statement at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, each as amended at the time such part of the registration statement became effective, are hereinafter collectively called the "Registration Statement"; such final prospectus, in the form first filed pursuant to Rule 424(b) under the Act, is hereinafter called the "Prospectus"; and any reference herein to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 under the Act, as of the date of such Preliminary Prospectus or Prospectus, as the case may be; any reference to any amendment or supplement to any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include any documents filed after the date of such Preliminary Prospectus or Prospectus, as the case may be, under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and incorporated by reference in such Preliminary Prospectus or Prospectus, as the case may be; and any reference to any amendment to the Registration Statement shall be deemed to refer to and include any annual report of the Company filed pursuant to Section 13(a) or 15(d) of the Exchange Act after the effective date of the

Initial Registration Statement that is incorporated by reference in the Registration Statement);

(b) No order preventing or suspending the use of any Preliminary Prospectus has been issued by the Commission, and each Preliminary Prospectus, at the time of filing thereof, conformed in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder, and did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; PROVIDED, HOWEVER, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(c) The documents incorporated by reference in the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder, and none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents become effective or are filed with the Commission, as the case may be, will conform in all material respects to the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; PROVIDED, HOWEVER, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with

information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(d) The Registration Statement conforms, and the Prospectus and any further amendments or supplements to the Registration Statement or the Prospectus will conform, in all material respects to the requirements of the Act and the rules and regulations of the Commission thereunder and do not and will not, as of the applicable effective date as to the Registration Statement and any amendment thereto and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; PROVIDED, HOWEVER, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by an Underwriter through Goldman, Sachs & Co. expressly for use therein;

(e) Neither the Company nor any of its subsidiaries has sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus; and, since the respective dates as of which information is given in the Registration Statement and the Prospectus, there has not been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any material adverse change, or any development involving a prospective material adverse change, in or affecting the general affairs, management, financial position, shareholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus;

(f) The Company and its subsidiaries have good and marketable title in fee simple to all real property and good and marketable title to all personal property owned by them, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made and proposed to be made of such property by the Company and its subsidiaries; and any real property and buildings held under lease by the Company and its subsidiaries are held by them under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company and its subsidiaries;

(g) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Florida, with power and authority (corporate and other) to own its properties and conduct its business as described in the Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, or is subject to no material liability or disability by reason of the failure to be so qualified in any such jurisdiction; and each subsidiary of the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of its jurisdiction of incorporation and each has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties, or conducts any business so as to require such qualification, or is

subject to no material liability or disability by reason of failure to be so qualified in any such jurisdiction;

(h) The Company has an authorized capitalization as set forth in the Prospectus, and all of the issued shares of capital stock of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and conform to the description of the Stock contained in the Prospectus; all of the issued shares of capital stock of each subsidiary of the Company have been duly and validly authorized and issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of all liens, encumbrances, equities or claims; and there are no holders of the securities of the Company or any of its subsidiaries having rights to registration thereof that have not been fully exercised or waived (except as otherwise described in the Prospectus) or pre-emptive rights to purchase capital stock of the Company;

(i) The unissued Shares to be issued and sold by the Company to the Underwriters hereunder have been duly and validly authorized and, when issued and delivered against payment therefor as provided herein, will be duly and validly issued and fully paid and non-assessable and will conform to the description of the Stock contained in the Prospectus;

(j) The issue and sale of the Shares by the Company hereunder and the compliance by the Company with all of the provisions of this Agreement and the consummation of the transactions herein and therein contemplated will not conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which the Company or any of its subsidiaries is bound or to which any of the property or assets of the Company or any of its subsidiaries is subject, nor will such action result in any violation of the provisions of the Articles of Incorporation or By-laws of the Company or any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its subsidiaries or any of their properties; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the issue and sale of the Shares or the consummation by the Company of the transactions contemplated by this Agreement, except the registration under the Act of the Shares and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the purchase and distribution of the Shares by the Underwriters;

(k) Neither the Company nor any of its subsidiaries is in violation of its Articles of Incorporation or By-laws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound;

(l) The statements set forth in the Prospectus under the caption "Underwriting", insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair;

(m) Other than as set forth or contemplated in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which,

if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the current or future consolidated financial position, shareholders' equity or results of operations of the Company and its subsidiaries; and, to the best of the Company's knowledge, no such proceedings are threatened or contemplated by governmental authorities or threatened by others;

(n) The Company is not and, after giving effect to the offering and sale of the Shares, will not be an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act of 1940, as amended (the "Investment Company Act");

(o) Neither the Company nor any of its affiliates does business with the government of Cuba or with any person or affiliate located in Cuba within the meaning of Section 517.075, Florida Statutes;

(p) Arthur Andersen LLP and Rhea & Ivy, P.L.C, who have certified certain financial statements of the Company and its consolidated subsidiaries and Three States Supply Company, Inc. ("Three States") and its consolidated subsidiaries, respectively, are independent public accountants as required by the Act and the rules and regulations of the Commission thereunder;

(q) Each of the Company and its subsidiaries owns or possesses, or can acquire on reasonable terms, all material patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its respective business, and neither the Company nor any such subsidiary has received any notice of or conflict with asserted rights of any third party with respect to any of the foregoing that, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would result in a material adverse change in the condition (financial or otherwise), business prospects, net worth or results of operations of the Company and its subsidiaries, except as described in or contemplated by the Prospectus; and

(r) Neither the Company nor any of its subsidiaries is in violation of any federal or state law or regulation relating to occupational safety and health or to the storage, handling or transportation of hazardous or toxic material and the Company and its subsidiaries have received all permits, licenses or other approvals required of them under applicable federal and state occupational safety and health and environmental laws and regulations to conduct their respective businesses, and the Company and each such subsidiary is in compliance with all terms and conditions of any such permit, license or approval, except any such violation of law or regulation, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals that would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries as a whole, except as otherwise described in the Prospectus.

2. Subject to the terms and conditions herein set forth, (a) the Company agrees to issue and sell to each of the Underwriters, and each of the Underwriters agrees, severally and not jointly, to purchase from the Company, at a purchase price per share of \$....., the number of Firm Shares set forth opposite the name of such Underwriter in Schedule I hereto and (b) in the event and to the extent that the Underwriters shall exercise the election to purchase Optional Shares as provided below, the Company agrees to issue and sell to each of the Underwriters, and each of

the Underwriters agrees, severally and not jointly, to purchase from the Company, at the purchase price per share set forth in clause (a) of this Section 2, that portion of the number of Optional Shares as to which such election shall have been exercised (to be adjusted by you so as to eliminate fractional shares) determined by multiplying such number of Optional Shares by a fraction, the numerator of which is the maximum number of Optional Shares which such Underwriter is entitled to purchase as set forth opposite the name of such Underwriter in Schedule I hereto and the denominator of which is the maximum number of Optional Shares that all of the Underwriters are entitled to purchase hereunder.

The Company hereby grants to the Underwriters the right to purchase at their election up to 450,000 Optional Shares, at the purchase price per share set forth in the paragraph above, for the sole purpose of covering overallocments in the sale of the Firm Shares. Any such election to purchase Optional Shares may be exercised only by written notice from you to the Company, given within a period of 30 calendar days after the date of this Agreement, setting forth the aggregate number of Optional Shares to be purchased and the date on which such Optional Shares are to be delivered, as determined by you but in no event earlier than the First Time of Delivery (as defined in Section 4 hereof) or, unless you and the Company otherwise agree in writing, earlier than two or later than ten business days after the date of such notice.

3. Upon the authorization by you of the release of the Firm Shares, the several Underwriters propose to offer the Firm Shares for sale upon the terms and conditions set forth in the Prospectus.

4. (a) The Shares to be purchased by each Underwriter hereunder, in definitive form, and in such authorized denominations and registered in such names as Goldman, Sachs & Co. may request upon at least forty-eight hours' prior notice to the Company, shall be delivered by or on behalf of the Company to Goldman, Sachs & Co., for the account of such Underwriter, against payment by or on behalf of such Underwriter of the purchase price therefor by certified or official bank check or checks, payable to the order of the Company in New York Clearing House (next day) funds. The Company will cause the certificates representing the Shares to be made available for checking and packaging at least twenty-four hours prior to the Time of Delivery (as defined below) with respect thereto at the office of Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004 (the "Designated Office"). The time and date of such delivery and payment shall be, with respect to the Firm Shares, 9:30 a.m., New York City time, on, 1997 or such other time and date as Goldman, Sachs & Co. and the Company may agree upon in writing, and, with respect to the Optional Shares, 9:30 a.m., New York time, on the date specified by Goldman, Sachs & Co. in the written notice given by Goldman, Sachs & Co. of the Underwriters' election to purchase such Optional Shares, or such other time and date as Goldman, Sachs & Co. and the Company may agree upon in writing. Such time and date for delivery of the Firm Shares is herein called the "First Time of Delivery", such time and date for delivery of the Optional Shares, if not the First Time of Delivery, is herein called the "Second Time of Delivery", and each such time and date for delivery is herein called a "Time of Delivery".

(b) The documents to be delivered at each Time of Delivery by or on behalf of the parties hereto pursuant to Section 7 hereof, including the cross receipt for the Shares and any additional documents requested by the Underwriters pursuant to Section 7(k) hereof, will be delivered at the offices of King & Spalding, 120 West 45th Street, New York, New York 10036-4003 (the "Closing Location"), and the Shares will be delivered at the Designated Office, all at such Time of Delivery. A meeting will be held at the Closing Location at 2:00 p.m., New York City time, on the New York Business Day next preceding such Time of

Delivery, at which meeting the final drafts of the documents to be delivered pursuant to the preceding sentence will be available for review by the parties hereto. For the purposes of this Section 4, "New York Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York are generally authorized or obligated by law or executive order to close.

5. The Company agrees with each of the Underwriters:

(a) To prepare the Prospectus in a form approved by you and to file such Prospectus pursuant to Rule 424(b) under the Act not later than the Commission's close of business on the second business day following the execution and delivery of this Agreement, or, if applicable, such earlier time as may be required by Rule 430A(a)(3) under the Act and, if the Company elects to rely upon Rule 462(b), the Company shall file a Rule 462(b) Registration Statement with the Commission in compliance with Rule 462(b) by 10:00 p.m., Washington, D.C. time, on the date of this Agreement, and the Company shall at the time of filing either pay to the Commission the filing fee for the Rule 462(b) Registration Statement or give irrevocable instructions for the payment of such fee pursuant to Rule 111(b) under the Act; to make no further amendment or any supplement to the Registration Statement or Prospectus prior to the last Time of Delivery which shall be disapproved by you promptly after reasonable notice thereof; to advise you, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any supplement to the Prospectus or any amended Prospectus has been filed and to furnish you with copies thereof; to file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of the Prospectus and for so long as the delivery of a prospectus is required in connection with the offering or sale of the Shares; to advise you, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of any Preliminary Prospectus or prospectus or suspending any such qualification, promptly to use its best efforts to obtain the withdrawal of such order;

(b) Promptly from time to time to take such action as you may reasonably request to qualify the Shares for offering and sale under the securities laws of such jurisdictions as you may request and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Shares, provided that in connection therewith the Company shall not be required to qualify as a foreign corporation or to file a general consent to service of process in any jurisdiction;

(c) Prior to 10:00 a.m., New York City time, on the New York Business Day next succeeding the date of this Agreement and from time to time, to furnish the Underwriters with copies of the Prospectus in New York City in such quantities as you may reasonably request, and, if the delivery of a prospectus is required at any time prior to the expiration of nine months after the time of issue of the Prospectus in connection with the offering or sale of the Shares and if at such time any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or

omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus is delivered, not misleading, or, if for any other reason it shall be necessary during such period to amend or supplement the Prospectus or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Act or the Exchange Act, to notify you and upon your request to file such document and to prepare and furnish without charge to each Underwriter and to any dealer in securities as many copies as you may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance, and in case any Underwriter is required to deliver a prospectus in connection with sales of any of the Shares at any time nine months or more after the time of issue of the Prospectus, upon your request but at the expense of such Underwriter, to prepare and deliver to such Underwriter as many copies as you may request of an amended or supplemented Prospectus complying with Section 10(a)(3) of the Act;

(d) To make generally available to its securityholders as soon as practicable, but in any event not later than eighteen months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Act), an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Act and the rules and regulations thereunder (including, at the option of the Company, Rule 158);

(e) During the period beginning from the date hereof and continuing to and including the date 90 days after the date of the Prospectus, not to offer, sell, contract to sell or otherwise dispose of, except as provided hereunder, any securities of the Company that are substantially similar to the Shares, including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, Stock or any such substantially similar securities (other than pursuant to employee stock option plans existing on, or upon the conversion or exchange of convertible or exchangeable securities outstanding as of, the date of this Agreement), without your prior written consent;

(f) To furnish to its shareholders as soon as practicable after the end of each fiscal year an annual report (including a balance sheet and statements of income, shareholders' equity and cash flows of the Company and its consolidated subsidiaries certified by independent public accountants) and, as soon as practicable after the end of each of the first three quarters of each fiscal year (beginning with the fiscal quarter ending after the effective date of the Registration Statement), consolidated summary financial information of the Company and its subsidiaries for such quarter in reasonable detail;

(g) During a period of five years from the effective date of the Registration Statement, to furnish to you copies of all reports or other communications (financial or other) furnished to shareholders, and to deliver to you (i) as soon as they are available, copies of any reports and financial statements furnished to or filed with the Commission or any national securities exchange on which any class of securities of the Company is listed; and (ii) such additional information concerning the business and financial condition of the Company as you may from time to time reasonably request (such financial statements to be on a consolidated basis to the extent the accounts of the Company and its subsidiaries are consolidated in reports furnished to its shareholders generally or to the Commission);

(h) To use the net proceeds received by it from the sale of the Shares pursuant to this Agreement in the manner specified in the Prospectus under the caption "Use of Proceeds"; and

(i) To use its best efforts to list, subject to notice of issuance, the Shares on the New York Stock Exchange (the "NYSE").

6. The Company covenants and agrees with the several Underwriters that the Company will pay or cause to be paid the following: (i) the fees, disbursements and expenses of the Company's counsel and accountants in connection with the registration of the Shares under the Act and all other expenses in connection with the preparation, printing and filing of the Registration Statement, any Preliminary Prospectus and the Prospectus and amendments and supplements thereto and the mailing and delivering of copies thereof to the Underwriters and dealers; (ii) the cost of printing or producing any Agreement among Underwriters, this Agreement, the Blue Sky Memorandum, closing documents (including compilations thereof) and any other documents in connection with the offering, purchase, sale and delivery of the Shares; (iii) all expenses in connection with the qualification of the Shares for offering and sale under state securities laws as provided in Section 5(b) hereof, including the fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky survey; (iv) all fees and expenses in connection with listing the Shares on the NYSE; (v) the filing fees incident to, and the fees and disbursements of counsel for the Underwriters in connection with, securing any required review by the National Association of Securities Dealers, Inc. of the terms of the sale of the Shares; (vi) the cost of preparing stock certificates; (vii) the cost and charges of any transfer agent or registrar; and (viii) all other costs and expenses incident to the performance of its obligations hereunder which are not otherwise specifically provided for in this Section. It is understood, however, that, except as provided in this Section, and Sections 8 and 11 hereof, the Underwriters will pay all of their own costs and expenses, including the fees of their counsel, stock transfer taxes on resale of any of the Shares by them, and any advertising expenses connected with any offers they may make.

7. The obligations of the Underwriters hereunder, as to the Shares to be delivered at each Time of Delivery, shall be subject, in their discretion, to the condition that all representations and warranties and other statements of the Company herein are, at and as of such Time of Delivery, true and correct, the condition that the Company shall have performed all of its obligations hereunder theretofore to be performed, and the following additional conditions:

(a) The Prospectus shall have been filed with the Commission pursuant to Rule 424(b) within the applicable time period prescribed for such filing by the rules and regulations under the Act and in accordance with Section 5(a) hereof; if the Company has elected to rely upon Rule 462(b), the Rule 462(b) Registration Statement shall have become effective by 10:00 p.m., Washington, D.C. time, on the date of this Agreement; no stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or threatened by the Commission; and all requests for additional information on the part of the Commission shall have been complied with to your reasonable satisfaction;

(b) King & Spalding, counsel for the Underwriters, shall have furnished to you such opinion or opinions, dated such Time of Delivery, with respect to the incorporation of the Company, the Underwriting Agreement, the validity of the Shares being delivered at such Time of Delivery, the Registration Statement, the Prospectus and such other related matters as you may reasonably request, and such counsel shall have received such papers and information as they may reasonably request to enable them to pass upon such matters;

(c) Greenberg, Traurig, Hoffman, Lipoff, Rosen & Quentel, P.A., counsel for the Company, shall have furnished to you their written opinion (a draft of such opinion is attached

as Annex II(a) hereto), dated such Time of Delivery, in form and substance satisfactory to you, to the effect that:

(i) the Company and each of its subsidiaries have been duly incorporated and are validly existing as corporations in good standing under the laws of their respective jurisdictions of incorporation and are duly qualified to transact business as foreign corporations and are in good standing under the laws of all other jurisdictions where the ownership or leasing of their respective properties or the conduct of their respective businesses requires such qualification, except where the failure to be so qualified does not amount to a material liability or disability to the Company and its subsidiaries, taken as a whole;

(ii) the Company and each of its subsidiaries have corporate power to own or lease their respective properties and conduct their respective businesses as described in the Prospectus, and the Company has corporate power to enter into this Agreement and to carry out all the terms and provisions hereof to be carried out by it;

(iii) all of the issued shares of capital stock of each subsidiary of the Company have been duly authorized and validly issued, are fully paid and nonassessable and, except as otherwise set forth in the Prospectus, are owned beneficially by the Company free and clear of any perfected security interests or, to the best knowledge of such counsel, any other security interests, liens, encumbrances, equities or claims;

(iv) the Company has an authorized capitalization as set forth in the Prospectus; all of the issued shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable, have either been issued in compliance with the registration requirements of all applicable federal and state securities laws or the applicable statute of limitation periods have expired without any claim having been made in respect thereof, and were not issued in violation of or subject to any preemptive rights or other rights to subscribe for or purchase securities; the Firm Shares have been duly authorized by all necessary corporate action of the Company and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be validly issued, fully paid and nonassessable; the Firm Shares have been duly authorized for listing on the NYSE; no holders of outstanding shares of capital stock of the Company are entitled as such to any preemptive or other rights to subscribe for any of the Shares; and no holders of securities of the Company are entitled to have such securities registered under the Registration Statement;

(v) the description of the Stock of the Company incorporated by reference in the Prospectus, insofar as such statements purport to summarize certain provisions of the capital stock of the Company, provide a fair summary of such provisions;

(vi) the execution and delivery of this Agreement have been duly authorized by all necessary corporate action of the Company and this Agreement has been duly executed and delivered by the Company;

(vii) to the best knowledge of such counsel, no legal or governmental proceedings are pending to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that are required to be described in the Prospectus and are not described therein, and no such proceedings have been threatened against the Company or any of its subsidiaries or with respect to any of their respective properties; and no contract or other document is required to be described in the Prospectus or to be filed as an exhibit to the Registration Statement that is not described therein or filed as required;

(viii) the issuance, offering and sale of the Securities to the Underwriters by the Company pursuant to this Agreement, the compliance by the Company with the other provisions of this Agreement and the consummation of the other transactions herein contemplated do not require the consent, approval, authorization, registration or qualification of or with any governmental authority, except such as have been obtained and such as may be required under state securities or blue sky laws;

(ix) Neither the Company nor any of its subsidiaries is in violation of its charter documents or By-laws or in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound, or any statute or any material judgment, decree, order, rule or regulation of any court or other governmental authority or any arbitrator known to such counsel and applicable to the Company or any of its subsidiaries;

(x) The Company is not an "investment company" or an entity "controlled" by an "investment company", as such terms are defined in the Investment Company Act;

(xi) the Registration Statement is effective under the Act; any required filing of the Prospectus has been made in the manner and within the time period required by Rules 434 and 424(b); and no stop order suspending the effectiveness of the Registration Statement or any post-effective amendment thereto and no order directed at any document incorporated by reference in the Prospectus or any amendment or supplement thereto has been issued, and no proceedings for that purpose have been instituted or threatened or, to the best knowledge of such counsel, are contemplated by the Commission;

(xii) The documents incorporated by reference in the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion), when they became effective or were filed with the Commission, as the case may be, complied as to form in all material respects with the requirements of the Act or the Exchange Act, as applicable, and the rules and regulations of the Commission thereunder; and they have no reason to believe that any of such documents, when such documents became effective or were so filed, as the case may be, contained, in the case of a registration statement which became effective under the Act, an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or, in the case of other documents which were filed under the Exchange Act with the Commission, an untrue statement of a material

fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such documents were so filed, not misleading; and

(xiv) The Registration Statement and the Prospectus and any further amendments and supplements thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) comply as to form in all material respects with the requirements of the Act and the rules and regulations thereunder, although they do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus; they have no reason to believe that, as of its effective date, the Registration Statement or any further amendment thereto made by the Company prior to such Time of Delivery (other than the financial statements and related statements and related schedules therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that, as of its date, the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contained an untrue statement of a material fact or omitted to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or that, as of such Time of Delivery, either the Registration Statement or the Prospectus or any further amendment or supplement thereto made by the Company prior to such Time of Delivery (other than the financial statements and related schedules therein, as to which such counsel need express no opinion) contains an untrue statement of a material fact or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and they do not know of any amendment to the Registration Statement required to be filed or of any contracts or other documents of a character required to be filed as an exhibit to the Registration Statement or required to be incorporated by reference into the Prospectus or required to be described in the Registration Statement or the Prospectus which are not filed or incorporated by reference or described as required;

(d) On the date of the Prospectus at a time prior to the execution of this Agreement, at 9:30 a.m., New York City time, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and also at each Time of Delivery, Arthur Andersen LLP shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to you, to the effect set forth in Annex I hereto (the executed copy of the letter delivered prior to the execution of this Agreement is attached hereto as Annex I(a) and a draft of the form of letter to be delivered on the effective date of any post-effective amendment to the Registration Statement and as of each Time of Delivery is attached hereto as Annex I(b));

(e) On the date of the Prospectus at a time prior to the execution of this Agreement, at 9:30 a.m., New York City time, on the effective date of any post-effective amendment to the Registration Statement filed subsequent to the date of this Agreement and also at each Time of Delivery, Rhea & Ivy, P.L.C. shall have furnished to you a letter or letters, dated the respective dates of delivery thereof, in form and substance satisfactory to

you, to the effect set forth in Annex III hereto (the executed copy of the letter delivered prior to the execution of this Agreement is attached hereto as Annex III(a) and a draft of the form of letter to be delivered on the effective date of any post-effective amendment to the Registration Statement and as of each Time of Delivery is attached hereto as Annex III(b));

(f)(i) Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the Prospectus, and (ii) since the respective dates as of which information is given in the Prospectus there shall not have been any change in the capital stock or long-term debt of the Company or any of its subsidiaries or any change, or any development involving a prospective change, in or affecting the general affairs, management, financial position, shareholders' equity or results of operations of the Company and its subsidiaries, otherwise than as set forth or contemplated in the Prospectus, the effect of which, in any such case described in Clause (i) or (ii), is in the judgment of the Representatives so material and adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(g) On or after the date hereof (i) no downgrading shall have occurred in the rating accorded the Company's debt securities, if any, by any "nationally recognized statistical rating organization", as that term is defined by the Commission for purposes of Rule 436(g)(2) under the Act, and (ii) no such organization shall have publicly announced that it has under surveillance or review, with possible negative implications, its rating of any of the Company's debt securities, if any;

(h) On or after the date hereof there shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the NYSE; (ii) a suspension or material limitation in trading in the Company's securities on the NYSE; (iii) a general moratorium on commercial banking activities declared by either Federal or New York State authorities; or (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, if the effect of any such event specified in this Clause (iv) in the judgment of the Representatives makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Shares being delivered at such Time of Delivery on the terms and in the manner contemplated in the Prospectus;

(i) The Shares to be sold at such Time of Delivery shall have been duly listed, subject to notice of issuance, on the NYSE;

(j) The Company has obtained and delivered to the Underwriters executed copies of an agreement from each director, executive officer and from certain shareholders of the Company, substantially to the effect set forth in Subsection 5(e) hereof in form and substance satisfactory to you;

(k) The Company shall have complied with the provisions of Section 5(c) hereof with respect to the furnishing of prospectuses on the New York Business Day next succeeding the date of this Agreement; and

(1) The Company shall have furnished or caused to be furnished to you at such Time of Delivery certificates of officers of the Company satisfactory to you as to the accuracy of the representations and warranties of the Company herein at and as of such Time of Delivery, as to the performance by the Company of all of its obligations hereunder to be performed at or prior to such Time of Delivery, as to the matters set forth in subsections (a) and (e) of this Section and as to such other matters as you may reasonably request.

8. (a) The Company will indemnify and hold harmless each Underwriter against any losses, claims, damages or liabilities, joint or several, to which such Underwriter may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse each Underwriter for any legal or other expenses reasonably incurred by such Underwriter in connection with investigating or defending any such action or claim as such expenses are incurred; PROVIDED, HOWEVER, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by any Underwriter through Goldman, Sachs & Co. expressly for use therein.

(b) Each Underwriter will indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any Preliminary Prospectus, the Registration Statement or the Prospectus, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in any Preliminary Prospectus, the Registration Statement or the Prospectus or any such amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such Underwriter through Goldman, Sachs & Co. expressly for use therein; and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) Promptly after receipt by an indemnified party under subsection (a) or (b) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall

not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(d) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering of the Shares purchased under this Agreement (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriters with respect to the Shares purchased under this Agreement, in each case as set forth in the table on the cover page of the Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contributions pursuant to this subsection (d) were determined by PRO RATA allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Shares underwritten by it and distributed to the public were offered to the public exceeds the

amount of any damages which such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (d) to contribute are several in proportion to their respective underwriting obligations and not joint.

(e) The obligations of the Company under this Section 8 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each person, if any, who controls any Underwriter within the meaning of the Act; and the obligations of the Underwriters under this Section 8 shall be in addition to any liability which the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company and to each person, if any, who controls the Company within the meaning of the Act.

9. (a) If any Underwriter shall default in its obligation to purchase the Shares which it has agreed to purchase hereunder at a Time of Delivery, you may in your discretion arrange for you or another party or other parties to purchase such Shares on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Shares, then the Company shall be entitled to a further period of thirty-six hours within which to procure another party or other parties satisfactory to you to purchase such Shares on such terms. In the event that, within the respective prescribed periods, you notify the Company that you have so arranged for the purchase of such Shares, or the Company notifies you that it has so arranged for the purchase of such Shares, you or the Company shall have the right to postpone such Time of Delivery for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Company agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "Underwriter" as used in this Agreement shall include any person substituted under this Section with like effect as if such person had originally been a party to this Agreement with respect to such Shares.

(b) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased does not exceed one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, then the Company shall have the right to require each non-defaulting Underwriter to purchase the number of Shares which such Underwriter agreed to purchase hereunder at such Time of Delivery and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Shares which such Underwriter agreed to purchase hereunder) of the Shares of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Shares of a defaulting Underwriter or Underwriters by you and the Company as provided in subsection (a) above, the aggregate number of such Shares which remains unpurchased exceeds one-eleventh of the aggregate number of all the Shares to be purchased at such Time of Delivery, or if the Company shall not exercise the right described in subsection (b) above to require non-defaulting Underwriters to purchase Shares of a defaulting Underwriter or

Underwriters, then this Agreement (or, with respect to the Second Time of Delivery, the obligations of the Underwriters to purchase and of the Company to sell the Optional Shares) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Company, except for the expenses to be borne by the Company and the Underwriters as provided in Section 6 hereof and the indemnity and contribution agreements in Section 8 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. The respective indemnities, agreements, representations, warranties and other statements of the Company and the several Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain in full force and effect, regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, or the Company, or any officer or director or controlling person of the Company, and shall survive delivery of and payment for the Shares.

Anything herein to the contrary notwithstanding, the indemnity agreement of the Company in subsection (a) of Section 8 hereof, the representations and warranties in subsections (b), (c) and (d) of Section 1 hereof and any representation or warranty as to the accuracy of the Registration Statement or the Prospectus contained in any certificate furnished by the Company pursuant to Section 7 hereof, insofar as they may constitute a basis for indemnification for liabilities (other than payment by the Company of expenses incurred or paid in the successful defense of any action, suit or proceeding) arising under the Act, shall not extend to the extent of any interest therein of a controlling person or partner of an Underwriter who is a director, officer or controlling person of the Company when the Registration Statement has become effective, except in each case to the extent that an interest of such character shall have been determined by a court of appropriate jurisdiction as not against public policy as expressed in the Act. Unless in the opinion of counsel for the Company the matter has been settled by controlling precedent, the Company will, if a claim for such indemnification is asserted, submit to a court of appropriate jurisdiction the question of whether such interest is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

11. If this Agreement shall be terminated pursuant to Section 9 hereof, the Company shall not then be under any liability to any Underwriter except as provided in Sections 6 and 8 hereof; but, if for any other reason, any Shares are not delivered by or on behalf of the Company as provided herein, the Company will reimburse the Underwriters through you for all out-of-pocket expenses approved in writing by you, including fees and disbursements of counsel, reasonably incurred by the Underwriters in making preparations for the purchase, sale and delivery of the Shares not so delivered, but the Company shall then be under no further liability to any Underwriter in respect of the Shares not so delivered except as provided in Sections 6 and 8 hereof.

12. In all dealings hereunder, you shall act on behalf of each of the Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of any Underwriter made or given by you jointly or by Goldman, Sachs & Co. on behalf of you as the representatives.

All statements, requests, notices and agreements hereunder shall be in writing, and if to the Underwriters shall be delivered or sent by mail, telex or facsimile transmission to you as the representatives in care of Goldman, Sachs & Co., 85 Broad Street, New York, New York 10004, Attention: Registration Department; and if to the Company shall be delivered or sent by mail, telex or facsimile transmission to the address of the Company set forth in the Registration Statement, Attention: Secretary; provided, however, that any notice to an Underwriter pursuant to Section 8(c)

hereof shall be delivered or sent by mail, telex or facsimile transmission to such Underwriter at its address set forth in its Underwriters' Questionnaire, or telex constituting such Questionnaire, which address will be supplied to the Company by you upon request. Any such statements, requests, notices or agreements shall take effect at the time of receipt thereof.

13. This Agreement shall be binding upon, and inure solely to the benefit of, the Underwriters, the Company and, to the extent provided in Sections 8 and 10 hereof, the officers and directors of the Company and each person who controls the Company or any Underwriter, and their respective heirs, executors, administrators, successors and assigns, and no other person shall acquire or have any right under or by virtue of this Agreement. No purchaser of any of the Shares from any Underwriter shall be deemed a successor or assign by reason merely of such purchase.

14. Time shall be of the essence of this Agreement. As used herein, the term "business day" shall mean any day when the Commission's office in Washington, D.C. is open for business.

15. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

16. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

If the foregoing is in accordance with your understanding, please sign and return to us one for the Company and for each of the Representatives plus one for each counsel counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this letter and such acceptance hereof shall constitute a binding agreement between each of the Underwriters and the Company. It is understood that your acceptance of this letter on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, the form of which shall be submitted to the Company for examination upon request, but without warranty on your part as to the authority of the signers thereof.

Very truly yours,

Watsco, Inc.

By:.....
Name:
Title:

Accepted as of the date hereof:

Goldman, Sachs & Co.
Prudential Securities Incorporated
Smith Barney Inc.
Robert W. Baird & Co. Incorporated

By:.....
(Goldman, Sachs & Co.)

On behalf of each of the Underwriters

SCHEDULE I

UNDERWRITER -----	TOTAL NUMBER OF FIRM SHARES TO BE PURCHASED -----	NUMBER OF OPTIONAL SHARES TO BE PURCHASED IF MAXIMUM OPTION EXERCISED -----
Goldman, Sachs & Co.....		
Prudential Securities Incorporated....		
Smith Barney Inc.....		
Robert W. Baird & Co. Incorporated....		
[NAMES OF OTHER UNDERWRITERS].....		
	-----	-----
Total.....	3,000,000	450,000
	-----	=====

ANNEX I

FORM OF COMFORT LETTER

Pursuant to Section 7(d) of the Underwriting Agreement, the accountants shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to the Company and its subsidiaries within the meaning of the Act and the applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules (and, if applicable, financial forecasts and/or pro forma financial information) examined by them and included or incorporated by reference in the Registration Statement or the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act or the Exchange Act, as applicable, and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the consolidated interim financial statements, selected financial data, pro forma financial information, financial forecasts and/or condensed financial statements derived from audited financial statements of the Company for the periods specified in such letter, as indicated in their reports thereon, copies of which have been separately furnished to the representatives of the Underwriters (the "Representatives") and are attached hereto;

(iii) They have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus and/or included in the Company's quarterly reports on Form 10-Q incorporated by reference into the Prospectus as indicated in their reports thereon copies of which have been separately furnished to the Representatives; and on the basis of specified procedures including inquiries of officials of the Company who have responsibility for financial and accounting matters regarding whether the unaudited condensed consolidated financial statements referred to in paragraph (vi)(A)(i) below comply as to form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations, nothing came to their attention that caused them to believe that the unaudited condensed consolidated financial statements do not comply as to form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations;

(iv) The unaudited selected financial information with respect to the consolidated results of operations and financial position of the Company for the five most recent fiscal years included in the Prospectus and included or incorporated by reference in Item 6 of the Company's Annual Report on Form 10-K for the most recent fiscal year agrees with the corresponding amounts (after restatement where applicable) in the audited consolidated financial statements for such five fiscal years which were included or incorporated by reference in the Company's Annual Reports on Form 10-K for such fiscal years;

(v) They have compared the information in the Prospectus under selected captions with the disclosure requirements of Regulation S-K and on the basis of limited procedures specified in such letter nothing came to their attention as a result of the foregoing procedures that caused them to believe that this information does not conform in all material respects

with the disclosure requirements of Items 301, 302, 402 and 503(d), respectively, of Regulation S-K;

(vi) On the basis of limited procedures, not constituting an examination in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, a reading of the latest available interim financial statements of the Company and its subsidiaries, inspection of the minute books of the Company and its subsidiaries since the date of the latest audited financial statements included or incorporated by reference in the Prospectus, inquiries of officials of the Company and its subsidiaries responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) (i) the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus and/or included or incorporated by reference in the Company's Quarterly Reports on Form 10-Q incorporated by reference in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Exchange Act and the related published rules and regulations, or (ii) any material modifications should be made to the unaudited condensed consolidated statements of income, consolidated balance sheets and consolidated statements of cash flows included in the Prospectus or included in the Company's Quarterly Reports on Form 10-Q incorporated by reference in the Prospectus, for them to be in conformity with generally accepted accounting principles;

(B) any other unaudited income statement data and balance sheet items included in the Prospectus do not agree with the corresponding items in the unaudited consolidated financial statements from which such data and items were derived, and any such unaudited data and items were not determined on a basis substantially consistent with the basis for the corresponding amounts in the audited consolidated financial statements included or incorporated by reference in the Company's Annual Report on Form 10-K for the most recent fiscal year;

(C) the unaudited financial statements which were not included in the Prospectus but from which were derived the unaudited condensed financial statements referred to in Clause (A) and any unaudited income statement data and balance sheet items included in the Prospectus and referred to in Clause (B) were not determined on a basis substantially consistent with the basis for the audited financial statements included or incorporated by reference in the Company's Annual Report on Form 10-K for the most recent fiscal year;

(D) any unaudited pro forma consolidated condensed financial statements included or incorporated by reference in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements;

(E) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock (other than issuances of capital stock upon exercise of options and upon conversions of

convertible securities, in each case which were outstanding on the date of the latest balance sheet included or incorporated by reference in the Prospectus) or any increase in the consolidated long-term debt of the Company and its subsidiaries, or any decreases in consolidated net current assets or shareholders' equity or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with amounts shown in the latest balance sheet included or incorporated by reference in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(F) for the period from the date of the latest financial statements included or incorporated by reference in the Prospectus to the specified date referred to in Clause (E) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or other items specified by the Representatives, or any increases in any items specified by the Representatives, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Representatives, except in each case for increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter; and

(vii) In addition to the examination referred to in their report(s) included or incorporated by reference in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in paragraphs (iii) and (vi) above, they have carried out certain specified procedures, not constituting an examination in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Representatives which are derived from the general accounting records of the Company and its subsidiaries, which appear in the Prospectus (including documents incorporated by reference in the Prospectus) or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Representatives, and have compared certain of such amounts, percentages and financial information with the accounting records of the Company and its subsidiaries and have found them to be in agreement.

ANNEX III

FORM OF COMFORT LETTER

Pursuant to Section 7(e) of the Underwriting Agreement, the accountants shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to Three States and its consolidated subsidiaries within the meaning of the Act and the applicable published rules and regulations thereunder;

(ii) In their opinion, the financial statements and any supplementary financial information and schedules (and, if applicable, financial forecasts and/or pro forma financial information) examined by them and included or incorporated by reference in the Registration Statement or the Prospectus comply as to form in all material respects with the applicable accounting requirements of the Act or the Exchange Act, as applicable, and the related published rules and regulations thereunder; and, if applicable, they have made a review in accordance with standards established by the American Institute of Certified Public Accountants of the consolidated interim financial statements, selected financial data, pro forma financial information, financial forecasts and/or condensed financial statements derived from audited financial statements of Three States for the periods specified in such letter, as indicated in their reports thereon, copies of which have been separately furnished to the representatives of the Underwriters (the "Representatives") and are attached hereto.

STOCK AND ASSET PURCHASE AGREEMENT

BY AND BETWEEN

A&C DISTRIBUTORS, INC.

AND

INTER-CITY PRODUCTS CORPORATION (USA)

Dated as of January 23, 1997

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STOCK AND ASSET PURCHASE AGREEMENT

THIS STOCK AND ASSET PURCHASE AGREEMENT (the "AGREEMENT") is made and entered into as of the 23rd day of January, 1997, by and between A&C DISTRIBUTORS, INC., a Florida corporation ("A&C"), and INTER-CITY PRODUCTS CORPORATION (USA), a Delaware corporation ("ICP").

BACKGROUND

A. ICP is engaged in the business of designing, manufacturing, selling and distributing for light commercial and residential markets central air conditioners, heat pumps, combination gas/electric air conditioners, and gas, electric and oil furnaces and parts and supplies for the foregoing, some of which are manufactured for it by OEMS, (collectively, the "ICP PRODUCTS") under the HEIL, TEMPSTAR, ARCOAIRE and COMFORTMAKER trademarks (each an "ICP BRAND" and collectively the "ICP BRANDS").

B. ICP owns all of the issued and outstanding capital stock of CDS Holdings, Inc., a Delaware corporation ("CDS HOLDINGS"). CDS Holdings owns all of the issued and outstanding capital stock of Coastline Distribution, Inc., a Delaware corporation with its headquarters in Sanford, Florida ("COASTLINE").

C. Coastline distributes ICP Products in Florida, Alabama and Georgia.

D. ICP leases and operates distribution centers located in Norcross, Georgia; Charlotte, North Carolina; Savage, Maryland; and Chino, California from which ICP Products are marketed (collectively, the "DISTRIBUTION CENTERS").

E. On the terms and subject to the conditions set forth herein, A&C desires to purchase from ICP, and ICP desires to sell to A&C, all of the issued and outstanding capital stock of CDS Holdings and substantially all of the assets and business comprising the Distribution Centers.

F. It is a mutual condition to the Closing of the transactions contemplated by this Agreement that ICP enter into distribution agreements with A&C and Coastline, pursuant to which ICP will appoint A&C and Coastline, and Coastline and A&C agree to act as such, as exclusive distributors of certain ICP Products in certain counties.

G. Watsco, Inc., a Florida corporation ("WATSCO"), as the ultimate parent of A&C, is joining in this Agreement for the limited purposes set forth herein.

Accordingly, in consideration of the premises and of the mutual covenants contained herein, the receipt and sufficiency of

which are hereby acknowledged, the parties hereby agree as follows:

ARTICLE I
DEFINITIONS

In addition to the terms defined in the preamble, in the Background section and in other Articles of this Agreement, as used in this Agreement, the following terms have the meanings indicated below:

"A&C'S ACCOUNTANTS" means Arthur Andersen LLP or such other independent and nationally recognized accounting firm as A&C may engage from time to time in connection with this Agreement.

"ACQUIRED BUSINESS" means the (1) Transferred Assets and Transferred Liabilities, (2) the business conducted by ICP at the Distribution Centers on the date hereof and on the Closing Date, and (3) the assets and Liabilities of, and business conducted by, CDS Holdings and Coastline on the date hereof and on the Closing Date.

"AFFILIATE" of a Person or entity means a Person or entity that directly or indirectly through one or more intermediaries controls, is controlled by, or is under common control with, the first Person or entity. "CONTROL" (including the terms "controlled by" and "under common control with"), whether or not capitalized, means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of a Person or entity, whether through the ownership of voting securities, by contract, as trustee or executor, or otherwise. Without limiting the foregoing, for purposes of clarity, (1) ownership of twenty-five percent (25%) or more of the voting securities of a corporation shall be presumed to constitute control, and (2) until (but not after) the Closing, CDS Holdings and Coastline are Affiliates of ICP.

"AFFILIATED GROUP" means the affiliated group as defined in Section 1504 of the Code (and any analogous combined, consolidated or unitary group defined under state, local or foreign income Tax law) of which ICP, CDS Holdings and Coastline are members and of which ICP is the parent.

"BENEFIT PLAN" means any Plan established by ICP, CDS Holdings or Coastline, or any predecessor or ERISA Affiliate of ICP, CDS Holdings or Coastline, existing at the Closing or prior thereto, to which ICP, CDS Holdings or Coastline contributes or has contributed on behalf of any present (as of the date of this Agreement or as of the Closing Date) or former employee, or under which any such Person or any beneficiary thereof is covered, is eligible for coverage or has benefit rights.

"BUSINESS DAY" means any day which is not a Saturday, Sunday or legal holiday in Miami, Florida or Nashville, Tennessee.

"CERCLA" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, and the rules and regulations promulgated thereunder.

"CERCLIS" means the Comprehensive Environmental Response and Liability Information System, as provided for by 40 C.F.R. ss.300.5.

"CLOSING DATE BALANCE SHEET" has the meaning ascribed to such term in SECTION 2.4.

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

"CONTRACT" means all written and oral contracts, agreements, license agreements, leases, assignments, purchase agreements, indentures, mortgages, instruments of indebtedness, security agreements, guaranties, purchase orders, sales orders, and distribution agreements.

"EMPLOYEE" means each full-time employee of ICP based at the Distribution Centers, and each employee of Coastline.

"ENVIRONMENTAL LAW" means all Laws and Orders concerning pollution or protection of the environment, public health and safety, or employee health and safety, including laws relating to emissions, discharges, releases, or threatened releases of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials or wastes into ambient air, surface water, groundwater, or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials or wastes including, without limitation, CERCLA, the Resource Conservation and Recovery Act, as amended, the Clean Air Act, as amended, the Clean Water Act, as amended, and the Occupational Safety and Health Act, as amended, and similar state and local laws, rules and regulations.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"ERISA AFFILIATE" means any Person which is under common control with ICP, CDS Holdings or Coastline who, together with any of ICP, CDS Holdings or Coastline (as the case may be), is treated as a single employer within the meanings of Sections 414(b), (c), (m) and (o) of the Code.

"GAAP" means United States generally accepted accounting principles, consistently applied.

"GOVERNMENTAL AUTHORITY" means any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States, any foreign country or any

domestic or foreign state, county, city or other political subdivision.

"HAZARDOUS MATERIALS" means (1) any petroleum or petroleum products, flammable or explosive materials, radioactive materials, asbestos in any form that is friable, urea formaldehyde foam insulation and transformers or other equipment that contain dielectric fluid containing levels of polychlorinated biphenyls (PCBs); (2) any chemicals or other materials or substances which are now or hereafter become defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous wastes," "restricted hazardous wastes," "toxic substances," "toxic pollutants" or words of similar import under any Environmental Law; and (3) any other chemical or other material or substance, exposure to which is now or hereafter prohibited, limited or regulated by any Governmental Authority under any Environmental Law.

"HSR ACT" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"ICP'S ACCOUNTANTS" means Coopers & Lybrand or such other independent and nationally recognized accounting firm as ICP may engage from time to time in connection with this Agreement.

"ICP INVENTORY PROFIT" means, with respect to ICP Products included in the Transferred Assets or owned by Coastline on the Closing Date, the excess, if any, of (1) the value of such inventory as shown on the final Closing Date Balance Sheet as audited pursuant to Section 2.4 hereof over (2) ICP's standard cost of manufacturing, or in the case of ICP Products purchased by ICP from an OEM the price paid by ICP for, such ICP Products in each case which shall include provision for freight and warranty costs and cooperative advertising.

"INSURANCE POLICIES" means all casualty, liability or other policies of insurance of ICP, CDS Holdings or Coastline relating to the Acquired Business, any Employees, or insuring any of the Transferred Assets or any of Coastline's or CDS Holdings' assets.

"IRS" means the United States Internal Revenue Service.

"KNOWLEDGE OF ICP" or "KNOWN TO ICP" means the actual knowledge of any director, officer or senior management personnel or branch general manager of ICP or of the President of Coastline.

"LAWS" means all laws, statutes, rules, regulations, ordinances and other pronouncements having the effect of law of the United States or any state, county, city or other political subdivision or of any Governmental Authority, including common law.

"LIABILITIES" means all indebtedness, debt, commitments, obligations and other liabilities of a Person (whether absolute, accrued, contingent, fixed or otherwise, whether accrued or unaccrued, whether asserted or unasserted, whether known or unknown, or whether due or to become due).

"LIENS" means any mortgage, pledge, assessment, security interest, lease, lien, adverse claim, levy, charge or other encumbrance of any kind, or any conditional sale contract, title retention contract or other Contract to give any of the foregoing.

"LOSSES" means any and all damages, fines, costs, fees, Liabilities, penalties, deficiencies, losses, amounts paid in settlement, and expenses (including, without limitation, interest, court costs, fees of attorneys, accountants and other experts or other expenses of litigation or other proceedings or of any claim, default or assessment).

"NET BOOK VALUE OF COASTLINE" means as of the Closing Date (1) the net book value of Coastline's assets as determined in accordance with GAAP, provided that, in calculating the net book value of such assets, it is agreed that inventory shall be valued on a FIFO basis, net of reasonable reserves for obsolete inventory and less any ICP Inventory Profit included in the value of the inventory as it appears on Coastline's books, LESS (2) the net book value of trade payables, notes payable, and accrued expenses of Coastline determined in accordance with GAAP, provided that, in calculating the net book value of such obligations, (A) the net book value of the notes owing to Louise Shivers, Linda East and Codisco shall be their net present value calculated in a manner consistent with SCHEDULE 1 hereto, (B) the net book value of the earnouts owing to Louise Shivers, Linda East and Don Bauerle Sr. shall be zero and (C) the net book value of Coastline's deferred tax assets shall be zero.

"NET BOOK VALUE OF THE DISTRIBUTION CENTERS" means as of the Closing Date (1) the net book value of Transferred Assets as determined in accordance with GAAP, provided that, in calculating the net book value of such assets, it is agreed that inventory shall be valued on a FIFO basis, net of reasonable reserves for obsolete inventory and less any ICP Inventory Profit included in the value of such inventory as it appears on ICP's books, less (2) the net book value of the Transferred Obligations determined in accordance with GAAP.

"NPL" means the National Priorities List under CERCLA.

"ORDER" means any writ, judgment, decree, injunction or similar order of any Governmental Authority (in each such case, whether preliminary or final).

"ORDINARY COURSE OF BUSINESS" means the ordinary course of business of the Acquired Business consistent with past custom and practice (including with respect to quantity and frequency).

"PBGC" means the Pension Benefit Guaranty Corporation established under ERISA.

"PENSION BENEFIT PLAN" means each Benefit Plan which is a pension benefit plan within the meaning of Section 3(2) of ERISA.

"PERMITS" means all licenses, permits, certificates of authority, variances, authorizations, approvals, registrations, franchises and similar consents granted or issued by any Governmental Authority.

"PERSON" means any natural person, corporation, general partnership, limited partnership, proprietorship, limited liability company, joint venture, other business organization, trust, union, association or Governmental Authority.

"PLAN" means any bonus, incentive compensation, deferred compensation, pension, profit sharing, retirement, stock purchase, stock option, stock ownership, stock appreciation rights, phantom stock, leave of absence, layoff, vacation, day or dependent care, legal services, cafeteria, life, health, accident, disability, workmen's compensation or other insurance, severance, separation, unemployment or other employee benefit plan, practice, policy or arrangement of any kind, whether written or oral, including, but not limited to, any "employee benefit plan" as defined in Section 3(3) of ERISA.

"PRELIMINARY CLOSING BALANCE SHEET" means a consolidated balance sheet of the Acquired Business as of November 30, 1996, prepared by ICP in accordance with GAAP.

"QUALIFIED PLAN" means each Benefit Plan which is intended to qualify under Section 401(a) of the Code.

"RELATED AGREEMENTS" means the Bill of Sale, the Assignment and Assumption Agreement, the Lease Assignments, the License Agreements, the Distribution Agreements, the Services Agreement, the ICP Bringdown Certificate, the A&C Bringdown Certificate, the ICP Secretary's Certificates, and the A&C Secretary's Certificates.

"TAX RETURNS" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"TAX" means any federal, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Section 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added,

alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"TREASURY REGULATIONS" means the regulations prescribed under the Code.

"WATSCO GUARANTY" means a guaranty agreement dated the Closing Date from Watsco in favor of ICP substantially in the form attached hereto as EXHIBIT K.

ARTICLE II
SALE AND PURCHASE OF SHARES AND DISTRIBUTION CENTERS

SECTION 2.1 SALE AND PURCHASE OF SHARES. Subject to the terms and conditions set forth herein, at the Closing (as defined below), ICP shall sell to A&C free and clear of any Liens, and A&C shall purchase, all of the issued and outstanding capital stock of CDS Holdings, which consists of 400 shares, par value of \$.01 per share, of common stock (the "SHARES").

SECTION 2.2 SALE AND PURCHASE OF DISTRIBUTION CENTERS.

(a) TRANSFERRED ASSETS. Subject to the terms and conditions set forth herein, at the Closing, ICP shall sell, convey, assign and deliver to A&C, free and clear of any Liens, and A&C shall purchase, acquire and accept delivery of, all of ICP's right, title and interest in and to the following assets (other than the Excluded Assets, defined below) to the extent that they are located at or used primarily in the operation of the Distribution Centers (the assets to be sold to A&C are collectively referred to herein as the "TRANSFERRED ASSETS"):

(i) All finished goods inventory of ICP Products located at the Distribution Centers, or in transit to or from the Distribution Centers, on the Closing Date, and including all rights of ICP against the manufacturers or suppliers of such inventories;

(ii) all of ICP's accounts and notes receivable and other rights to receive payment (other than warranty receivables);

(iii) all supplies, equipment, machinery, vehicles, furniture, furnishings, fixtures, spare parts, tools, packaging supplies, leasehold improvements and other tangible property, including, but not limited to, the tangible personal property listed on SCHEDULE 2.2(a)(iii), together with all rights of ICP against the manufacturers or suppliers of such items;

(iv) the leases for real property listed on SCHEDULE 2.2(a)(iv) (collectively, the "FACILITY LEASES");

(v) all leases for personal property including, but not limited to, those listed on SCHEDULE 2.2(a)(v) (collectively, the "EQUIPMENT LEASES");

(vi) all Contracts including, but not limited to, those listed on SCHEDULE 2.2(a)(vi) but excluding leases for real or personal property (collectively, the "TRANSFERRED CONTRACTS");

(vii) all utility, security and other deposits, prepaid expenses and other prepayments; and

(viii) (A) the business conducted by ICP at the Distribution Centers as a going concern, technical and business information and methods of operation and all related goodwill, (B) the telephone numbers, customer lists, vendor lists, referral lists and contacts, and other data located at or related to the Distribution Centers or the business conducted at the Distribution Centers, (C) all books, computer software and media, files, papers, records and other data of ICP located at the Distribution Centers or relating to the business conducted at the Distribution Centers, and (D) Permits relating to the conduct of business at the Distribution Centers, except those Permits which by their terms are not transferable.

At the Closing, ICP shall deliver to A&C, free and clear of any Liens, good and marketable (or, in the case of Transferred Contracts, Facility Leases and Equipment Leases, good and assignable title pursuant to the terms of the applicable lease or Contract) to and possession of the Transferred Assets.

(b) EXCLUDED ASSETS. The following assets are specifically excluded from the meaning of the term "Transferred Assets", and ownership of these assets shall remain with ICP (collectively, "EXCLUDED ASSETS"):

(i) All rights, properties, and assets which have been used or held for use in connection with the Acquired Business and which shall have been transferred (including transfers by way of sale) or otherwise disposed of prior to the Closing, provided such transfers and disposals shall have been in the Ordinary Course of Business of the Acquired Business;

(ii) rights to or claims for refunds or rebates of Taxes and other governmental charges and the benefit of net operating loss carryforwards, carrybacks or

other tax benefits or credits of ICP, in each case whether or not attributable to the Acquired Business;

(iii) claims or rights against third parties arising with respect to events or breaches occurring prior to the Closing Date under the Transferred Contracts;

(iv) all insurance policies and rights thereunder, including but not limited to, rights to any cancellation value as of the Closing Date;

(v) proprietary or confidential business or technical information, records and policies that relate generally to ICP or any of its Affiliates and are not used primarily in the Acquired Business, including, without limitation, organization manuals and strategic plans;

(vi) all trademarks and service marks owned by ICP or its Affiliates, including, without limitation, any and all trademarks or service marks, trade names, slogans or other like property relating to or including the name "HEIL," "TEMPSTAR," "ARCOAIRE," and "COMFORTMAKER" or any derivative thereof and any ICP logo or any derivative thereof, and ICP's proprietary computer programs or other software, including but not limited to Seller's proprietary databases, accounting and reporting formats, systems and procedures; and

(vii) Consulting Agreement dated January 1, 1996 by and between William B. Furlong d/b/a W. B. Furlong Enterprises and ICP; and

(viii) all other assets of ICP not located at the Distribution Centers or used primarily in connection with the Acquired Business, including but not limited to, assets used by ICP or its Affiliates in other businesses of ICP or its Affiliates and assets used primarily in connection with ICP's corporate functions (including but not limited to the corporate charter, taxpayer and other identification numbers, seals, minute books and stock transfer books), whether or not used for the benefit of the Acquired Business.

(c) TRANSFERRED OBLIGATIONS. At the Closing, A&C shall assume only the following Liabilities of ICP (the "TRANSFERRED OBLIGATIONS"), and no others:

(i) All Liabilities arising after the Closing Date under the Transferred Contracts;

(ii) all Liabilities arising after the Closing under the Facility Leases;

(iii) all Liabilities arising after the Closing under the Equipment Leases;

(iv) all of the accounts payable, other accrued expenses and any other items shown as "current liabilities" on the Closing Date Balance Sheet (other than employee compensation expenses such as payroll, benefits, commissions, withholdings, and Taxes);

(v) the Liabilities expressly assumed by Buyer pursuant to this Agreement;

(vi) all Liabilities under open purchase orders that were entered into by ICP on behalf of the Acquired Business in the Ordinary Course of Business and which provide for the delivery of goods or services to the Acquired Business (and in either case for payment) subsequent to the Closing Date;

(vii) as provided in Section 2.5 hereof, all Liabilities in respect of real or personal property Taxes, utilities, gas and other services but only to the extent that they pertain to periods after the Closing Date;

(viii) all Liabilities arising from the operation of the Acquired Business from and after the Closing Date; and

(ix) the Liability described on SCHEDULE 2.2(c)(ix).

Except for the Transferred Obligations, A&C shall not assume or be responsible at any time for any Liabilities of ICP or any of its Affiliates. Without limiting the generality of the foregoing, ICP expressly acknowledges and agrees that ICP shall retain, and that A&C shall not assume or otherwise be obligated to pay, perform, defend or discharge, except for the Transferred Obligations, (1) any Liabilities of ICP or any of its Affiliates for Taxes (except as provided in (vii) above), whether measured by income or otherwise, (2) any Liabilities of ICP or any of its Affiliates in connection with employee compensation expenses with respect to periods prior to Closing including, but not limited to, payroll, benefits, commissions, withholdings, and Taxes or with any Benefit Plan (with respect to the Employees or otherwise), including, without limitation, any liability of ICP or any of its Affiliates under ERISA, (3) any Liabilities of ICP or any of its Affiliates under any Environmental Laws, (4) any Liabilities pertaining to products sold by ICP prior to the Closing Date, including, but not limited to, product liability and returns and obligations under any warranty, (5) any Liabilities under or related to that certain Consulting Agreement dated January 1, 1996 by and between William B.

Furlong d/b/a Furlong Enterprises and ICP (except that A&C agrees to comply with the confidentiality provisions of such agreement with regard to any information delivered to it hereunder) or under or related to the Stock Purchase Agreement described on SCHEDULE 2.2(a)(vi) or under or related to the transactions contemplated by such agreements, or (6) any other Liabilities which otherwise arise or are asserted by reasons of events, acts (or failures to act) or transactions occurring, or the conduct of business at any or all of the Distribution Centers prior to the Closing Date, including, but not limited to, any Liabilities incident to, arising out of or incurred with respect to this Agreement and the transactions contemplated hereby. ICP further agrees to satisfy and discharge as the same shall become due all Liabilities of ICP or any of its Affiliates with respect to the Acquired Business not specifically assumed by A&C hereunder. A&C's assumption of the Transferred Obligations shall in no way expand the rights or remedies of third parties against A&C as compared to the rights and remedies which such parties would have had against ICP had the transactions contemplated by this Agreement not been consummated.

SECTION 2.3 CLOSING. The closing of the sale and purchase of the Shares and the Transferred Assets (the "CLOSING") shall take place at the offices of Tuke Yopp & Sweeney at Suite 1100, NationsBank Plaza, Nashville, Tennessee 37219 on January 27, 1997 or such other time and date as the parties may agree to in writing (the date on which the Closing occurs is referred to herein as the "CLOSING DATE"). For all purposes, the Closing shall be deemed to be effective as of 12:01 A.M. on the Closing Date.

SECTION 2.4 PURCHASE PRICE.

(a) PURCHASE PRICE; ESTIMATED CLOSING PAYMENT. As consideration for sale of the Shares and the Transferred Assets, A&C shall pay to ICP an amount equal to the sum (the "PURCHASE PRICE") of (i) the Net Book Value of Coastline and (ii) the Net Book Value of the Distribution Centers. The Purchase Price shall be calculated in the manner provided in (c) below.

At the Closing, as an estimate of the Purchase Price, subject to adjustment as provided below, A&C shall pay to ICP an amount equal to ninety percent (90%) of the sum of the Net Book Value of Coastline and the Net Book Value of the Distribution Centers, in each case calculated using the Preliminary Closing Balance Sheet (the "Closing Payment"). Simultaneously with the Closing, A&C shall pay or shall cause Coastline to pay to ICP or ICP's Affiliates all notes payable and advances (but not trade or other accounts payables) owing from Coastline to ICP and ICP's Affiliates (net of notes receivable by Coastline from ICP and ICP's Affiliates and ICP Inventory Profit in the inventories of

Coastline), which amount as of November 30, 1996 was \$16,403,000.

(b) METHOD OF PAYMENT; INTEREST. Payment of the Closing Payment and any adjustments to the Closing Payment in favor of ICP shall be made by A&C on the due date therefor by wire transfer of immediately available funds in Nashville, Tennessee to an account designated in writing by ICP. Payment of any adjustments to the Closing Payment in favor of A&C shall be made by ICP on the due date therefor by ICP to A&C by wire transfer of immediately available funds in Miami, Florida to an account designated in writing by A&C. Any amounts owing by one party to the other party under this Agreement which are not paid when due shall bear simple interest at the lesser of (i) seven percent (7%) per annum or (ii) the highest rate allowed under applicable Law.

(c) CALCULATION OF PURCHASE PRICE; DISPUTES. Promptly after the Closing and in any event within thirty (30) days of the Closing Date, ICP shall deliver to A&C a balance sheet of the Acquired Business dated as of the Closing Date, certified by its Chief Financial Officer as having been prepared in accordance with GAAP, this Agreement and on the same basis as the Preliminary Closing Balance Sheet (the "CLOSING DATE BALANCE SHEET").

In connection with the foregoing, A&C shall make employees of the Acquired Business reasonably available to assist ICP (without charge) and such employees shall be instructed by A&C to reasonably cooperate with ICP. A&C agrees that following the Closing and until the final resolution of the calculation of the Purchase Price, A&C will not take any actions with respect to the accounting books, records, policies and procedures of the Acquired Business that are not consistent with GAAP applied in the manner consistent with the past practices of the Acquired Business and consistent with the Preliminary Closing Balance Sheet. A&C shall also cause A&C's Accountants, and ICP shall cause ICP's Accountants, to cooperate with each other and with the Settlement Accountants in connection with the resolution of any disputes related to the calculation of the Purchase Price, including but, not limited to, sharing of work papers.

(d) During the ninety (90) days immediately following A&C's receipt of the Closing Date Balance Sheet, A&C and A&C's Accountants shall be entitled to review and audit the Closing Date Balance Sheet and review ICP's and ICP's Accountant's working paper relating to the Closing Date Balance Sheet. The Closing Date Balance Sheet shall become final and binding upon the parties on the ninetieth (90th) day following delivery thereof to A&C unless A&C gives written notice to ICP of its disagreement with the Closing Date Balance Sheet (a "NOTICE OF DISAGREEMENT") prior to such date. Any Notice of Disagreement shall specify in

reasonable detail the nature of any disagreement so asserted. If a timely Notice of Disagreement is received by ICP with respect to the Closing Date Balance Sheet, then the Closing Date Balance Sheet (as revised in accordance with clause (e) below), shall become final and binding upon the parties on the earlier of: (1) the date the parties hereto resolve in writing any differences they have with respect to any matter specified in a Notice of Disagreement; or (2) the date any matters properly in dispute are finally resolved in writing by the Settlement Accountants (as defined below). Notwithstanding the foregoing, within ninety (90) days after the receipt by A&C of the Closing Date Balance Sheet, A&C shall remit to ICP or ICP shall remit to A&C, as the case may be, in immediately available funds, any undisputed amount as to which there is required to be a Closing Payment Adjustment (as hereafter defined).

(e) During the thirty (30) days immediately following the delivery of any Notice of Disagreement, ICP and A&C shall seek in good faith to resolve in writing any differences which they may have with respect to any matter specified in such Notice of Disagreement. At the end of such 30-day period, ICP and A&C shall submit to a nationally recognized firm of independent certified accountants (the "SETTLEMENT ACCOUNTANTS") for review and resolution any and all matters which remain in dispute and which were properly included in any Notice of Disagreement, and the Settlement Accountants shall reach a final, binding resolution of all matters which remain in dispute. The Closing Date Balance Sheet, with such adjustments necessary to reflect the Settlement Accountants' resolution of the matters in dispute, shall become final and binding on A&C and ICP on the date the Settlement Accountants deliver their final resolution to the parties. The Settlement Accountants shall be Price Waterhouse, or if such firm is unable or unwilling to act, such other nationally recognized firm of independent certified accountants (who have not performed services for either of ICP, A&C or their respective Affiliates within the last five (5) years) selected by mutual agreement of ICP's Accountants and A&C's Accountants. The costs and expenses of the Settlement Accountants shall be borne 50% by A&C and 50% by ICP.

(f) ADJUSTMENT TO THE PURCHASE PRICE. In the event the Purchase Price, as finally determined in accordance with (a) and (c) above, exceeds the Closing Payment, A&C shall pay the amount of such excess to ICP. In the event the Purchase Price, as finally determined in accordance with (a), (c), (d) and (e) above, is less than the Closing Payment, ICP shall pay the amount of such deficiency to A&C. Payments owing under this subsection (f) are referred to herein as "CLOSING PAYMENT ADJUSTMENTS" and shall be due and payable in immediately available funds three (3) Business Days after the Purchase Price as has been finally determined in accordance with (a), (c), (d) and (e) above.

SECTION 2.5 PRORATIONS. The operation of the Acquired Business at the Distribution Centers prior to the Closing shall be for the account of ICP up to the Closing, and thereafter shall be for the account of A&C. Expenses for utilities, real or personal property Taxes and assessments, rents, royalties, subscriptions, and similar items, to the extent they are among the Transferred Obligations, shall be prorated between A&C and ICP as of the effective time of the Closing.

SECTION 2.6 ALLOCATION OF PURCHASE PRICE. Within thirty (30) days of the date that the Purchase Price is finally determined in accordance with this Article II, A&C shall deliver to ICP, for its review and approval, a Schedule setting forth the allocation of the Purchase Price and the Transferred Obligations for all purposes (including Tax and financial accounting purposes) among (a) the Shares, (b) the Transferred Assets, and (c) the Transferred Obligations (the "Allocation"). If A&C and ICP are not able to agree to the Allocation within thirty (30) days, either of them may submit any unresolved matter related to the Allocation to the Settlement Accountants to resolve all unresolved matters related to the Allocation, and such resolution shall be binding on both parties. The fees and expenses of the Settlement Accountants shall be shared equally by A&C and ICP. ICP and A&C each agrees to report (and to cause its Affiliates to report) all Tax consequences of the transactions contemplated herein in a manner consistent with such Allocation (including the filing of a reasonably acceptable IRS Form 8594, Asset Acquisition Agreement under Section 1060 of the Code) and not to take any position inconsistent therewith upon examination of any Tax Return, in any refund claim, in any litigation, investigation or otherwise. A&C agrees to send to ICP a completed copy of its Form 8594 (Asset Acquisition Statement under Section 1060) with respect to this transaction prior to filing such form with the Internal Revenue Service.

SECTION 2.7 ICP CLOSING DELIVERIES. At the Closing, ICP shall tender all of the following documents, materials and instruments to A&C, each in form and substance reasonably satisfactory to A&C:

(a) SHARES. One or more certificates representing all of the Shares, duly endorsed in blank by an authorized officer of ICP or accompanied by stock powers duly executed in blank by an authorized officer of ICP, and bearing or accompanied by all requisite stock transfer stamps.

(b) BILL OF SALE. A bill of sale in the form of the bill of sale attached hereto as EXHIBIT A (the "BILL OF SALE"), duly executed by an authorized officer of ICP.

(c) ASSIGNMENT. An assignment agreement in the form of the assignment and assumption agreement attached hereto as EXHIBIT B (the "ASSIGNMENT AND ASSUMPTION AGREEMENT"), duly executed by an authorized officer of ICP.

(d) LEASE ASSIGNMENTS. For each Facility Lease, a lease assignment substantially in the form of the lease assignment attached hereto as EXHIBIT C (the "LEASE ASSIGNMENTS"), each duly executed by an authorized officer of ICP and by the applicable lessor.

(e) DISTRIBUTION AGREEMENTS. Distribution agreements (and corresponding license agreements) in the form of the agreement(s) attached hereto as EXHIBIT D (the "DISTRIBUTION AGREEMENTS"), each duly executed by an authorized officer of ICP.

(f) SERVICES AGREEMENT. A services agreement pursuant to which ICP would agree to continue to provide for a reasonable period following Closing to the Distribution Centers, CDS Holdings and Coastline certain of the support services that ICP had previously provided to the Distribution Centers, CDS Holdings and Coastline prior to the date hereof, the degree of support and the terms and conditions of the support to be provided shall be determined in accordance with Section 6.10 hereof (the "SERVICES AGREEMENT"), duly executed by an authorized officer of ICP.

(g) TITLES. Originals of any title or registration certificates for any vehicles or titled equipment or assets included within the Transferred Assets, duly endorsed in order to transfer ownership thereof to A&C.

(h) BRINGDOWN. A certificate in the form of the certificate attached hereto as EXHIBIT E (the "ICP BRINGDOWN CERTIFICATE"), duly executed by an authorized officer of ICP.

(i) SECRETARY'S CERTIFICATES. A secretary's certificate of each of ICP, CDS Holdings and Coastline in the form of the certificate(s) attached hereto as EXHIBIT F (the "ICP SECRETARY'S CERTIFICATES"), each duly executed by the Secretary or an Assistant Secretary of ICP, CDS Holdings or Coastline, as the case may be, authorized to execute and deliver such certificate.

(j) LEGAL OPINION. The opinion of Tuke Yopp & Sweeney, counsel to ICP substantially in the form of the opinion attached hereto as EXHIBIT G hereto (the "ICP LEGAL OPINION").

(k) LIENS AND CONSENTS. Evidence that all Liens on the Transferred Assets, the Shares, the assets of CDS Holdings and Coastline or otherwise affecting or relating to the Acquired Business have been released and that all consents and notices required in the reasonable opinion of A&C to be obtained or given in connection with the consummation of the transactions contemplated hereby have been obtained or given, including, but not limited to, the consents and notices listed on SCHEDULE 3.6 hereto.

(l) PRELIMINARY CLOSING BALANCE SHEET. The Preliminary Closing Balance Sheet, certified by the Chief Financial Officer of ICP as having been prepared in accordance with GAAP.

(m) MANUFACTURING COST. A statement, certified as true and accurate by the Chief Financial Officer of ICP, setting forth ICP's standard cost of manufacturing ICP Products, or in the case of ICP Products purchased from an OEM, the purchase price paid to such OEM by ICP, in each case sufficient for use in calculating ICP Inventory Profit.

(n) MINUTE BOOKS AND SHARE CERTIFICATES. The original minute books of CDS Holdings, Coastline and any Person that merged with or into such entities, the corporate seals of such entities, the stock ledger and stock books of such entities, and the original certificates representing all of the issued and outstanding shares of capital stock of Coastline.

ICP shall also execute and tender to A&C at Closing such other documents, materials and instruments as A&C may reasonably request in order to consummate the transactions contemplated hereby and vest in A&C, free of any Liens, the Shares, the Transferred Assets and the Acquired Business.

SECTION 2.8 A&C CLOSING DELIVERIES. At the Closing, A&C shall tender payment of the Closing Payment to ICP in the manner described in this Article II and tender to ICP all of the following documents, materials and instruments, each in form and substance reasonably satisfactory to A&C:

(a) ASSIGNMENT. The Assignment and Assumption Agreement, duly executed by an authorized officer of A&C.

(b) LEASE ASSIGNMENTS. The Lease Assignments, duly executed by an authorized officer of A&C.

(c) DISTRIBUTION AGREEMENTS. The Distribution Agreements (and corresponding license agreements), each duly executed by an authorized officer of A&C and Coastline.

(d) SERVICES AGREEMENT. The Services Agreement, duly executed by an authorized officer of A&C.

(e) BRINGDOWN. A certificate in the form of the certificate attached hereto as EXHIBIT H (the "A&C BRINGDOWN CERTIFICATE"), duly executed by an authorized officer of A&C.

(f) SECRETARY'S CERTIFICATES. A secretary's certificate of each of Watsco and A&C in the form of the certificate(s) attached hereto as EXHIBIT I (the "A&C SECRETARY'S CERTIFICATES"), each duly executed by the Secretary or an Assistant Secretary, of Watsco or A&C, as

the case may be, authorized to execute and deliver such certificate.

(g) LEGAL OPINION. The opinion of Moore & Van Allen PLLC, special counsel to A&C substantially in the form of the opinion attached hereto as EXHIBIT J hereto (the "A&C LEGAL OPINION").

(h) WATSCO GUARANTY. The Watsco Guaranty, duly executed by Watsco.

A&C shall also execute and tender to ICP at Closing such other documents, materials and instruments as ICP may reasonably request in order to consummate the transactions contemplated hereby and cause A&C to assume the Transferred Obligations.

ARTICLE III
REPRESENTATIONS AND WARRANTIES OF ICP

ICP hereby makes to A&C all of the representations and warranties set forth in this Article III:

SECTION 3.1 ORGANIZATION, GOOD STANDING AND AUTHORITY OF ICP. Each of ICP, CDS Holdings and Coastline is duly organized, validly existing and in good standing under the laws of the State of Delaware. Each of CDS Holdings and Coastline is duly qualified to do business as a foreign corporation in the jurisdictions set forth opposite its name in SCHEDULE 3.1, which are all the jurisdictions where the character of the properties each of them owns, leases or operates, or the conduct of each of their respective business, requires such qualification. ICP is duly qualified to do business as a foreign corporation in each state in which any of the Distribution Centers is located and in each other jurisdiction where the character of the properties it owns, leases or operates or the conduct of its business makes such qualification necessary other than where the failure to so qualify could not reasonably be expected to have a material adverse effect on the Acquired Business. Each of ICP, CDS Holdings and Coastline has full corporate power and authority to own the properties and assets owned by it, to lease the properties and assets held by it under lease, to carry on the operation of the Acquired Business as it is now being conducted by it, to operate the Acquired Business as heretofore operated by it and to enter into this Agreement and the Related Agreements and perform its obligations under this Agreement and the Related Agreements.

SECTION 3.2 ARTICLES OF INCORPORATION; BYLAWS; MINUTE BOOKS. True and complete copies of the articles of incorporation and by-laws of each of ICP, CDS Holdings and Coastline, as amended to and including the date hereof, have been delivered to A&C. None of ICP, CDS Holdings or Coastline is in violation of any provision of its articles of incorporation or by-laws. The minute books, stock books and stock transfer records of each of

CDS Holdings and Coastline, true and complete copies of which have been made available to A&C, contain true and complete minutes and records of all issuances and transfers of capital stock of CDS Holdings and Coastline (as the case may be) and of all meetings, consents, proceedings and other actions of the shareholders, board of directors and committees of the board of directors of CDS Holdings and Coastline (as the case may be) from August 25, 1996 to and including the date hereof and, to the Knowledge of ICP, from the respective date of incorporation of CDS Holdings and Coastline (as the case may be) to and including August 24, 1996.

SECTION 3.3 DUE AUTHORIZATION, EXECUTION AND DELIVERY. ICP has full corporate authority to execute and deliver this Agreement and the Related Agreements, to perform its obligations hereunder and under the Related Agreements and to consummate the transactions contemplated hereby and thereby, and ICP has duly executed and delivered this Agreement, and this Agreement constitutes (and, when executed and delivered, the Related Agreements will constitute) the legal, valid and binding obligations of ICP enforceable against it in accordance with its terms, except that such enforcement (a) may be limited by bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally, and (b) is subject to the availability of equitable remedies, as determined in the discretion of the court before which such a proceeding may be brought.

SECTION 3.4 TITLE TO SHARES; CAPITALIZATION; ETC.

(a) TITLE. ICP owns beneficially and of record all of the Shares free and clear of any Liens. Upon the delivery of and payment for the Shares as provided for in this Agreement, A&C will acquire good and valid title to all the Shares, free and clear of any Lien other than any Lien arising by any action taken by A&C. CDS Holdings owns beneficially and of record all of the issued and outstanding capital stock of Coastline free and clear of any Liens.

(b) AUTHORIZED AND ISSUED CAPITAL STOCK. The authorized and issued capital stock of Coastline and CDS Holdings is as set forth on SCHEDULE 3.4(b). The Shares and the shares of capital stock of Coastline shown on SCHEDULE 3.4(b) to be issued and outstanding have been duly authorized and validly issued, are fully paid and nonassessable and are the only issued and outstanding shares of capital stock of Coastline or CDS Holdings.

(c) NO EQUITY RIGHTS. There are no preemptive or similar rights on the part of any holders of any class of securities of CDS Holdings or Coastline. There are no subscriptions, options, warrants, conversion or other rights, agreements, commitments, arrangements or understandings of any kind obligating any of ICP, CDS Holdings or Coastline or any other Person, contingently or

otherwise, to issue or sell, or cause to be issued or sold, any shares of capital stock of CDS Holdings or Coastline, or any securities convertible into or exchangeable for any such shares, and no authorization therefor has been given. There are no outstanding contractual or other rights or obligations to or of any of ICP, CDS Holdings or Coastline or any other Person to repurchase, redeem or otherwise acquire any outstanding shares or other equity interests of CDS Holdings or Coastline.

SECTION 3.5 SUBSIDIARIES.

(a) Except as set forth in SCHEDULE 3.5, Coastline does not own, directly or indirectly, any shares of capital stock or other equity interest (or any other interest convertible into an equity interest) in any Person and has no commitment to contribute to the capital of, make loans to, or share in the profits or losses of, any Person. C&M Trucking, Inc., a Florida corporation, ("C&M TRUCKING") is an inactive corporation. All of the issued and outstanding capital stock of C&M Trucking of C&M Trucking is owned by Coastline. C&M Trucking does not now have, nor has it ever had, any business operations, assets or Liabilities.

(b) Other than the Shares, CDS Holdings does not have any assets or Liabilities or own any equity interest (or any other interest convertible into an equity interest) in any other Person, and has no commitment to contribute to the capital of, make loans to, or share in the profits or losses of, any other Person.

SECTION 3.6 CONSENTS; NO CONFLICT. Except as set forth in SCHEDULE 3.6 and for applicable requirements of the HSR Act, (a) no consent, authorization, Permit or approval of any Person or from any Governmental Authority is required as a condition to the execution and delivery of this Agreement by ICP or any of the Related Agreements and the consummation of the transactions contemplated by this Agreement and the Related Agreements by ICP, and (b) the execution and delivery of this Agreement and the Related Agreements by ICP and the consummation of the transactions contemplated hereby and thereby by ICP will not conflict with, give rise to a right of termination of, contravene or constitute a default under, or be an event which with the giving of notice or passage of time or both will become a default under, or give to others any rights of termination or cancellation of, or give rise to a right of acceleration of the performance required by or maturity of, or result in the creation of any Lien, Liabilities or loss of any rights with respect to ICP, CDS Holdings or Coastline (which could reasonably be expected to have a material adverse effect on the Acquired Business) pursuant to any of the terms, conditions or provisions of or under any applicable Law, the articles of incorporation or by-laws of any of ICP, CDS Holdings or Coastline, or under any Contract binding upon any of ICP, CDS Holdings or Coastline, or to which any of the assets or properties of any of ICP (related

to the Acquired Business), CDS Holdings or Coastline or any of the Shares, Transferred Assets or any portion of the Acquired Business is subject.

SECTION 3.7 TAX MATTERS.

(a) TAX RETURNS. Except as set forth on SCHEDULE 3.7(a), (i) each of ICP, CDS Holdings and Coastline and the Affiliated Group has duly and timely filed (or caused to be filed) (or where permitted or required, the Affiliated Group of which ICP, CDS Holdings or Coastline is a member has filed (or caused to be filed)) all Tax Returns that each was required to file prior to the date hereof, (ii) all such Tax Returns were correct and complete in all material respects, and (iii) none of the Affiliated Group, ICP, CDS Holdings or Coastline is currently the beneficiary of any extension of time within which to file any Tax Return.

(b) COMPLIANCE. Except as set forth on SCHEDULE 3.7(b), (i) all Taxes that are or may become payable by any of the Affiliated Group, ICP, CDS Holdings or Coastline or that are chargeable as a Lien upon the Transferred Assets or the Shares (whether or not shown on any Tax Return) as of the date hereof have been duly and timely paid, and (ii) each of ICP, CDS Holdings and Coastline have complied with applicable Law relating to the reporting, payment and withholding of Taxes in connection with amounts paid to its employees, creditors, independent contractors or other third parties and has, within the time and in the manner prescribed by Law, withheld from such amounts and timely paid over to the proper Governmental Authorities all such amounts required to be so withheld and paid over under applicable Law.

(c) CLAIMS. Except as set forth on SCHEDULE 3.7(c), (i) no claim (other than a claim that has been finally settled) is pending by a Governmental Authority in a jurisdiction where ICP, CDS Holdings or Coastline does not file Tax Returns or pay or collect Taxes in respect of a particular type of Tax imposed by that jurisdiction that any of ICP, CDS Holdings or Coastline is or may be subject to an obligation to file Tax Returns or pay or collect Taxes in respect of such Tax in that jurisdiction and (ii) there is no pending claim or issue (other than a claim or issue that has been finally settled) concerning any Liability for Taxes of any of ICP, CDS Holdings or Coastline asserted, raised or threatened by any Governmental Authority in writing and, to the knowledge of ICP, no such Liability for Taxes has otherwise been threatened.

(d) WAIVERS. Except as set forth on SCHEDULE 3.7(d), neither the Affiliated Group nor any of ICP, CDS Holdings or Coastline has (i) waived any statute of limitations, (ii) agreed to any extension of the period for assessment or

collection or (iii) executed or filed any power of attorney in each case with respect to any Taxes, which waiver, agreement or power of attorney is currently in force.

(e) ELECTIONS. SCHEDULE 3.7(e) lists all material elections for Income Taxes made by any of ICP, CDS Holdings or Coastline or the Affiliated Group that are currently in force or to which any of ICP, CDS Holdings or Coastline is bound.

(f) CONSENTS. None of ICP, CDS Holdings, Coastline or the Affiliated Group has filed a consent under Section 341(f) of the Code concerning collapsible corporations.

(g) TAX SHARING AGREEMENTS. Except as set forth on SCHEDULE 3.7(g), none of ICP, CDS Holdings or Coastline is a party to or bound by or has any obligation under any Tax allocation, sharing, indemnity or similar agreement or arrangement, and none of ICP, CDS Holdings or Coastline (i) is or has ever been a member of any group of companies (other than the Affiliated Group) filing a consolidated, combined or unitary Income Tax Return or (ii) has any liability for the Taxes of any Person under Section 1.1502-6 of the Treasury Regulations (or any similar provision of state, local or foreign law); as a transferee, successor, indemnitor or guarantor; by contract or otherwise.

(h) U.S. REAL PROPERTY HOLDING CORPORATION. Neither Coastline nor CDS Holdings is a "United States real property holding corporation" within the meaning of Section 897(c)(2) of the Code.

(i) TAX RETURN FILINGS. SCHEDULE 3.7(i) contains a listing of each jurisdiction in which CDS Holdings or Coastline filed income Tax Returns for the calendar year ending December 31, 1995.

(j) INCOME TAX RESERVES. The charges, awards and reserves for Taxes that will, when delivered, be reflected on the Preliminary Closing Balance Sheet and the Closing Date Balance Sheet with respect to ICP, CDS Holdings and Coastline for any period (or portion thereof) ending on or prior to the Closing are adequate to cover such Taxes.

(k) PRE-CLOSING INCOME. Neither CDS Holdings or Coastline will be required to include any amount in taxable income or exclude any item of deduction or loss from taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of (i) a change in method of accounting for a taxable period ending on or prior to the Closing Date, (ii) any "closing agreement," as described in Code Section 7121 (or any corresponding provision of state, local or foreign income Tax law), (iii) any deferred intercompany gain described in Treasury Regulation Sections 1.1502-13 or former Treasury Regulations Section 1.1502-14

or any excess loss account described in Treasury Regulation Sections 1.1502-19 and 1.1502-32 (or any corresponding or similar provision or administrative rule of federal, state, local or foreign income tax law), (iv) any sale reported on the installment method where such sale occurred on or prior to the Closing Date, or (v) any prepaid amount received on or prior to the Closing Date.

(1) NET OPERATING LOSS. At December 31, 1995, Coastline's federal income Tax Return indicated that it had a net operating loss carryforward ("NOLs") in the amount of approximately \$2,000,000 attributable to the years ended 1993, 1994 and 1995. ICP believes that the NOLs were fully utilized by Coastline's and CDS Holdings' parent prior to the acquisition of these companies by ICP and there now are no NOLs available for utilization.

SECTION 3.8 EMPLOYEES, LABOR MATTERS, ETC.

(a) Except as set forth on SCHEDULE 3.8(a), none of ICP (with respect to the Acquired Business), CDS Holdings or Coastline is a party to or bound by any collective bargaining or other labor agreement with or relating to any of the Employees, and there are no labor unions or other organizations representing any of the Employees. To the Knowledge of ICP, since January 1, 1995, there has not occurred or been threatened any material strike, slowdown, picketing, work stoppage, concerted refusal to work overtime or other similar labor activity with respect to any of the Employees. Except as set forth on SCHEDULE 3.8(a), there are no labor disputes currently subject to any grievance procedure, arbitration or litigation and there is no representation petition pending or threatened with respect to any of the Employees.

(b) SCHEDULE 3.8(b) sets forth the salaries and wages payable to each of the Employees immediately prior to the date hereof and all bonus payments made or to be made to any of the Employees since August 31, 1996 which were or will be outside of the Ordinary Course of Business.

SECTION 3.9 FINANCIAL STATEMENTS. SCHEDULE 3.9 contains true and complete copies of the following financial statements of the Acquired Business (collectively and together with the Preliminary Closing Balance Sheet and the Closing Date Balance Sheet, the "FINANCIAL STATEMENTS"):

(a) Consolidated Balance Sheet of Coastline and its subsidiaries as of November 22, 1996; and

(b) Consolidated Balance Sheet, Consolidated Statement of Income and Consolidated Statement of Cash Flows of Coastline and its subsidiaries at December 31, 1996 and for the five (5) months ended December 31, 1996.

Except as set forth in the notes thereto or as disclosed in SCHEDULE 3.9 hereof, all such Financial Statements (i) were (or, in the case of the Preliminary Closing Balance Sheet and the Closing Date Balance Sheet, will be) prepared from the accounting books and records of ICP, CDS Holdings and Coastline in accordance with GAAP and (ii) fairly present (or, in the case of the Preliminary Closing Balance Sheet and the Closing Balance Sheet, will present) the financial condition and results of operations of the Acquired Business as of the respective dates thereof and for the respective periods covered thereby.

SECTION 3.10 CHANGES OF FINANCIAL CONDITION. Except for the execution and delivery of this Agreement and the Related Agreements and as disclosed on SCHEDULE 3.10 hereof, since August 31, 1996, there has not been any material adverse change, or any event or development which, individually or together with other such events or developments, has resulted in or may result in a material adverse change in the business prospects, business, operations, property, condition (financial or otherwise), Liabilities or relations with labor, customers or suppliers of the Acquired Business. Since August 31, 1996, the Acquired Business has been operated in the Ordinary Course of Business.

SECTION 3.11 Real Property.

(a) OWNED REAL PROPERTY. Neither CDS Holdings nor Coastline owns any real property and the Transferred Assets do not include any real property (other than leasehold interests under the Facility Leases).

(b) LEASED REAL PROPERTY. SCHEDULE 3.11(b) contains a true and correct list of the Facility Leases and each parcel of real property leased by Coastline or CDS Holdings, as lessee, under any real property lease, sublease, license or other Contract. Neither CDS Holdings or Coastline leases any real property as a sublessor, and ICP does not sublet any portion of the premises leased under the Facility Leases.

Each of Coastline, CDS Holdings and ICP (in the case of the Facility Leases) has a valid leasehold estate in the real properties leased by such company, subject to the real property lease, sublease, license or Contract relating thereto, for the full term thereof. Each such real property lease or Contract is a legal, valid and binding agreement of Coastline, CDS Holdings or ICP (whichever is a party thereto), enforceable against such company in accordance with its terms and, except as set forth in SCHEDULE 3.11(b), Coastline, CDS Holdings or ICP (whichever is a party thereto) is not, and to the Knowledge of ICP no other party thereto is, in default under such lease or Contract and no event has occurred which, after notice or lapse of time or both, would constitute a default thereunder.

(c) DOCUMENTS. ICP has delivered to A&C prior to the execution of this Agreement true and complete copies of the Facility Leases and all other real property leases, subleases, licenses or other Contracts (including any amendments and renewal letters relating thereto) with respect to the Facility Leases or the real property leased by Coastline or CDS Holdings.

(d) CONDITION OF IMPROVEMENTS. Except as disclosed in SCHEDULE 3.11(d), to the Knowledge of ICP, the improvements located on real property leased by Coastline and CDS Holdings and on the real property leased pursuant to the Facility Leases are in good condition and in good repair, ordinary wear and tear excepted, and there are no condemnation proceedings pending or, to the Knowledge of ICP, threatened against any of such real property or improvements. To the Knowledge of ICP, all utilities and similar systems which are required for the operation of the Acquired Business at such leased real property are installed and operating and are sufficient to enable such real property to continue to be used and operated in the manner currently being used and operated by Coastline, CDS Holdings and ICP.

(e) CURRENT USE. The current use of the leased real property by Coastline, CDS Holdings and ICP (with respect only to the real property encompassed by the Facility Leases) does not violate any of the leases or Contracts with respect to such properties or, to the Knowledge of ICP, any other instrument or Contract affecting such real property. To the Knowledge of ICP, there is no violation of any covenant, condition, restriction, easement, agreement or order of any Governmental Authority having jurisdiction over any of such leased real property that adversely affects such real property or the use or occupancy thereof. Since August 25, 1996, no damage or destruction has occurred with respect to any of the real property leased by Coastline or CDS Holdings or leased by ICP pursuant to the Facility Leases that, individually or in the aggregate, has had or resulted in, or could have or result in, a material adverse effect on the operation of the Acquired Business.

SECTION 3.12 TANGIBLE PERSONAL PROPERTY. Each of Coastline and CDS Holdings is in possession of and has good title to, or has valid leasehold interests in or valid rights under Contract to use, all the tangible personal property used in the conduct of the Acquired Business by such company. Except as disclosed in SCHEDULE 3.12, all such tangible personal property is free and clear of all Liens and, to the Knowledge of ICP, is in all material respects in good condition, ordinary wear and tear excepted.

ICP is in possession of and has good title to, or has valid leasehold interests in or valid rights under Contract to use, all the Transferred Assets. Except as disclosed in SCHEDULE 3.12

hereof, all the Transferred Assets are free and clear of all Liens and, to the Knowledge of ICP, are in all material respects in good condition, ordinary wear and tear excepted. The sale of the Transferred Assets by ICP to A&C pursuant to this Agreement will effectively transfer to A&C ownership of, or rights under Contract to use, all tangible assets and properties constituting part of the Transferred Assets, free and clear of all Liens.

SECTION 3.13 INVENTORY. All the inventory of Coastline and all of the inventory included in the Transferred Assets consists of finished goods inventory (and, in the case of the manufacturing operations of Coastline, raw materials, work in process or finished goods inventory) of a quality and quantity usable and salable in the Ordinary Course of Business, except for obsolete items or items below standard quality as to which a provision determined in a manner consistent with GAAP has been made on the books of such company. ICP and Coastline, as the case may be, have good and marketable title to such inventory, free and clear of all Liens. All of the inventory owned by Coastline and all of the inventory included within the Transferred Assets is located at the places identified on SCHEDULE 3.13 hereto. No such inventory is held under a consignment or similar arrangement. The sale of the Transferred Assets by ICP to A&C will effectively transfer to A&C title to the inventory constituting part of the Transferred Assets, free and clear of all Liens.

SECTION 3.14 ACCOUNTS RECEIVABLE. Except as set forth in SCHEDULE 3.14, the accounts receivable and notes receivable included within the Transferred Assets and the accounts receivable and notes receivable of Coastline on the Closing Date (a) arose from BONA FIDE sales transactions in the Ordinary Course of Business; and (b) are collectible in the Ordinary Course of Business in the aggregate recorded amounts thereof, subject to annual write-off adjustments consistent with prior practice. ICP has good title to the accounts receivable and notes receivable included in the Transferred Assets, free and clear of all Liens. Coastline has good title to the accounts receivable and notes receivable owned by Coastline, free and clear of any Liens.

SECTION 3.15 VEHICLES. SCHEDULE 3.15 hereof contains a true and complete list of all vehicles included in the Transferred Assets and all vehicles owned by CDS Holdings and Coastline. Each of ICP, CDS Holdings and Coastline (as the case may be) has good and valid title to, or has valid leasehold interests in or valid rights under Contract to use, all such vehicles, free and clear of all Liens. The sale of the Transferred Assets by ICP to A&C pursuant to this Agreement will effectively transfer to A&C the vehicles, free and clear of any Liens.

SECTION 3.16 CONTRACTS.

(a) Description of Contracts. Schedule 3.16 contains a true and complete list of each of the following Contracts (true and complete copies of which, together with all amendments and supplements thereto, have been delivered to A&C prior to the execution of this Agreement) which are Transferred Contracts or to which CDS Holdings or Coastline is a party or by which the Acquired Business may be bound following the Closing:

(i) All Contracts (excluding Benefit Plans) providing for a commitment of employment or consultation services for a specified term to, or otherwise relating to employment or the termination of employment or the severance of, any employee;

(ii) all Contracts with any Person containing any provision or covenant prohibiting or materially limiting the ability of ICP, Coastline or CDS Holdings to engage in any business activity or compete with any Person or prohibiting or materially limiting the ability of any Person to compete with ICP, Coastline or CDS Holdings;

(iii) all material partnership, joint venture or shareholders' Contracts with any Person;

(iv) all Contracts with distributors, dealers, manufacturer's representatives, sales agencies or franchisees with whom ICP, CDS Holdings or Coastline deals which in any case involve the payment or contingent payment, pursuant to the terms of any such Contract, by or to ICP, Coastline or CDS Holdings of more than \$50,000 annually;

(v) all Contracts relating to the future disposition or acquisition of any assets of or by ICP, CDS Holdings or Coastline;

(vi) all other Contracts (other than Benefit Plans, real estate leases listed on Schedule 3.11(b) and insurance policies listed in Schedule 3.21) to which any of ICP, Coastline or CDS Holdings is a party that (A) involve the payment or potential payment, pursuant to the terms of any such Contract, by or to ICP, CDS Holdings or Coastline of more than \$50,000 annually and (B) cannot be terminated within thirty (30) days after giving notice of termination without resulting in any material cost or penalty to ICP, CDS Holdings or Coastline.

(b) STATUS OF CONTRACTS. Each Contract required to be disclosed in SCHEDULE 3.16, lease listed on SCHEDULE 3.11(b), Transferred Contract, and Equipment Lease is in

full force and effect and constitutes a legal, valid and binding agreement of Coastline, CDS Holdings or ICP (whichever is a party thereto), enforceable against such company in accordance with its terms, and, except as disclosed in SCHEDULE 3.16, neither the company party thereto nor, to the knowledge of ICP, any other party to any such Contract or lease is in violation or breach of or default under any such Contract or lease (or with notice or lapse of time or both, would be in violation or breach of or default under any such Contract or lease) the effect of which, individually or in the aggregate, could have a material adverse effect on the Acquired Business.

SECTION 3.17 LITIGATION AND CLAIMS. SCHEDULE 3.17 discloses each instance in which ICP, CDS Holdings or Coastline is a party to or, to the knowledge of ICP, is threatened to be made a party to, any charge, complaint, action, suit, arbitration, proceeding, hearing, or investigation which, individually or in the aggregate with all other such items, could if adversely determined have a material adverse effect on the Acquired Business.

SECTION 3.18 COMPLIANCE WITH LAWS AND ORDERS. Except as disclosed in SCHEDULE 3.18, none of ICP, CDS Holdings or Coastline is in violation of or in default under any Law or Order applicable to it the effect of which, individually or in the aggregate with other such violations and defaults, could have a material adverse effect on the Acquired Business.

SECTION 3.19 EMPLOYEE BENEFITS.

(a) DESCRIPTION OF BENEFIT PLANS. SCHEDULE 3.19(a) contains a true and complete list of the Benefit Plans and identifies each Benefit Plan that is a Qualified Plan. Except as disclosed on SCHEDULE 3.19(a), no Benefit Plan provides health or other welfare benefits to former Employees (except as required under Part 6 of Subtitle B of Title I of ERISA and Code Section 4980B(f)). Except as disclosed on SCHEDULE 3.19(a) hereto, none of the Benefit Plans obligate Coastline, CDS Holdings or ICP to pay any separation, severance, termination or similar benefit solely as a result of any transaction contemplated by this Agreement.

(b) COMPLIANCE. Except as disclosed on SCHEDULE 3.19(b), (i) each Benefit Plan (and each related trust or insurance contract) complies in form and in operation in all material respects with its respective governing documents and the applicable requirements of ERISA and the Code, any applicable collective bargaining agreements and any other applicable laws and regulations; (ii) there has been no application for or waiver of the minimum funding standards imposed by Section 412 of the Code with respect to any Benefit Plan, and ICP is not aware of any facts or circumstances that would materially change the funded status

of any such Benefit Plan; (iii) no asset of Coastline, CDS Holdings or ICP that is to be acquired by A&C, directly or indirectly, pursuant to this Agreement is subject to any Lien which arose with respect to any Benefit Plan under ERISA or the Code; (iv) none of Coastline, CDS Holdings or ICP has incurred any Liabilities under Title IV of ERISA (other than for contributions not yet due) or to the PBGC (other than for payment of premiums not yet due); and (v) to the Knowledge of ICP, there are no pending or threatened actions, suits, investigations or claims with respect to any Benefit Plan (other than routine claims for benefits) which could result in liability to A&C, Coastline or CDS Holdings (whether direct or indirect) or any facts which could give rise to (or be expected to give rise to) any such actions, suits, investigations or claims.

(c) FILINGS. Except as disclosed on SCHEDULE 3.19(c), all required reports and descriptions (including without limitation Form 5500 Annual Reports, Summary Annual Reports, PBGC-1's, and Summary Plan Descriptions) have been filed or distributed in a timely manner with respect to each Benefit Plan. The requirements of Part 6 of Subtitle B of Title I of ERISA and of Code Sec. 4980B(f) have been met with respect to each group health plan.

(d) CONTRIBUTIONS. All contributions (including all employer contributions and employee salary reduction contributions) which are due have been paid to each Pension Benefit Plan and all contributions for any period ending on or before the Closing Date which are not yet due have been paid to each Pension Benefit Plan or accrued in accordance with the past custom and practice of ICP, CDS Holdings and Coastline. All premiums or other payments for all periods ending on or before the date hereof have been paid with respect to each Welfare Benefit Plan (as defined in ERISA Section 3(1)).

(e) DETERMINATION LETTERS. Each Pension Benefit Plan which is required to comply with Code Section 401(a) satisfies the requirements of Code Section 401(a) and has received a favorable determination letter from the IRS regarding such status and has not, since receipt of the most recent favorable determination letter, been amended or operated in a way which would adversely affect such qualified status.

(f) ASSET VALUATION. Except as disclosed on SCHEDULE 3.19(f), no Pension Benefit Plan (other than any Multiemployer Plan) has an underfunded benefit obligation as determined under FASB Statement of Financial Accounting Standards No. 87. No Pension Benefit Plan (other than any Multiemployer Plan) has been completely or partially terminated or been the subject of a reportable event as to which notices would be required to be filed with the PBGC. No proceeding by the PBGC to terminate any Pension Benefit

Plan (other than any Multiemployer Plan) has been instituted or, to the Knowledge of ICP, threatened.

(g) NO PROHIBITED TRANSACTIONS. To the Knowledge of ICP, there has been no Prohibited Transaction (as defined in ERISA Section 406 and Code Section 4975) with respect to any Benefit Plan. To the Knowledge of ICP, no fiduciary with respect to any Benefit Plan has any Liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any Benefit Plan. No material charge, complaint, action, suit, proceeding, hearing, investigation, claim, or demand with respect to any Benefit Plan (other than routine claims for benefits) is pending against any of ICP, CDS Holdings or Coastline and, to the Knowledge of ICP, there is no basis for any such charge, complaint, action, suit, proceeding, hearing, investigation, claim, or demand.

(h) DOCUMENTATION. Each of ICP, CDS Holdings and Coastline has delivered to A&C true and complete copies of (i) the plan documents and summary plan descriptions for each Benefit Plan to which it is a party, (ii) the most recent determination letters received from the Internal Revenue Service for each Qualified Plan applicable to Coastline or CDS Holdings, (iii) the most recent Forms 5500 Annual Report for each Benefit Plan applicable Coastline or CDS Holdings, and (iv) all related trust agreements, insurance contracts, and other funding agreements with respect to each Benefit Plan applicable to Coastline or CDS Holdings.

(i) MISCELLANEOUS. Except as set forth on SCHEDULE 3.19(i), none of ICP, CDS Holdings or Coastline is, and none of them have never been, a member of a controlled group of corporations that, contributes to, ever has contributed to, or ever has been required to contribute to any multiemployer plan (as defined in Section 4001(a)(3) of ERISA) (a "MULTIEMPLOYER PLAN") AND DOES NOT HAVE ANY LIABILITY (INCLUDING "withdrawal liability as such term is defined in Section 4201 of ERISA) under any Multiemployer Plan. None of ICP, CDS Holdings or Coastline has incurred, and none of them has any reason to expect that any of them will incur, and there are no events or circumstances which could reasonably be expected to result in any Liability to the PBGC (other than PBGC premium payments) or otherwise under Title IV of ERISA (including any withdrawal Liability) or under the Code with respect to any Pension Benefit Plan that ICP, CDS Holdings or Coastline or any controlled group of corporations which includes ICP, CDS Holdings or Coastline maintains or have ever maintained or to which any of them contributes, has ever contributed, or has ever been required to contribute. The actions contemplated by this Agreement will not give rise to any Liability with respect to any "employee welfare benefit plan" (as such term is defined in Section 3(1) of ERISA) that is a "multiemployer plan" (as

such term is defined in Section 3(37) of ERISA). None of ICP, CDS Holdings or Coastline has any Liability with respect to any "employee benefit plan" (as defined in Section 3(3) of ERISA) solely by reason of being treated as a single employer under Section 414 of the Code with any trade, business or entity other than each other.

SECTION 3.20 PERMITS. SCHEDULE 3.20 contains a true and complete list of all material Permits of ICP, CDS Holdings, Coastline relating to the operation of the Acquired Business, with the exception of any permits listed in SCHEDULE 3.22.

SECTION 3.21 INSURANCE POLICIES. SCHEDULE 3.21 contains a true and complete list of all Insurance Policies maintained by ICP that cover or relate to the Transferred Assets or the Acquired Business or by Coastline or CDS Holdings. SCHEDULE 3.21 indicates the owner of each such policy. Each such Insurance Policy is in full force and effect and all premiums due thereunder have been paid. None of ICP, CDS Holdings, Coastline or any of their Affiliates has received any notice of cancellation or termination with respect to any such Insurance Policy and, to the Knowledge of ICP, none of ICP, CDS Holdings, Coastline or any of their Affiliates, is in default thereunder in any material respect.

SECTION 3.22 ENVIRONMENTAL MATTERS.

(a) COMPLIANCE. Except as disclosed on SCHEDULE 3.22(a), each of ICP, CDS Holdings and Coastline has obtained, and complied with all the terms and conditions of, all Permits required by any Environmental Law in connection with the Acquired Business except where the failure to obtain or comply with any such Permit which could not reasonably be expected to have, individually or in the aggregate with other such failures, a material adverse effect on the Acquired Business. Each such Permit obtained by ICP, CDS Holdings or Coastline is in full force and effect. ICP (with respect to the Distribution Centers), CDS Holdings and Coastline are in compliance in all material respects with all applicable Environmental Laws.

(b) LISTINGS. Except as disclosed in SCHEDULE 3.22(b), to the Knowledge of ICP, none of the real property leased by ICP (pursuant to the Facility Leases), CDS Holdings or Coastline is listed on the NPL, CERCLIS or any similar state or local list of sites requiring investigation or clean-up.

(c) NO NOTICE. No written notice or, to the Knowledge of ICP, any other communication from Governmental Authority of any alleged violation of any Environmental Law has been received by ICP (with respect to the Distribution Centers) or, to the Knowledge of ICP, by CDS Holdings or Coastline, except for notices or communications that have been complied with in all respects.

(d) Neither this Agreement nor the consummation of the transactions contemplated hereby shall impose any obligations on A&C, Coastline or CDS Holdings for site investigation or cleanup, or notification to or consent of any Governmental Authority or third parties under any Environmental Laws (including, without limitation, any so-called "transaction triggered" or "responsible party transfer" laws and regulations.

(e) To the Knowledge of ICP, except as disclosed on SCHEDULE 3.22(e), none of the following exists at any real property leased by ICP (pursuant to the Facility Leases) or by Coastline or CDS Holdings:

(i) underground storage tanks or surface impoundments;

(ii) asbestos-containing materials in any form or condition; or

(iii) materials or equipment containing polychlorinated biphenyls.

(f) To the Knowledge of ICP, except as disclosed on SCHEDULE 3.22(f), none of ICP (with respect to the Distribution Centers), CDS Holdings or Coastline has treated, stored, disposed of, arranged for or permitted the disposal of, transported, handled or released any substance (including, without limitation, any Hazardous Substance) or owned, occupied or operated any facility or property so as to give rise to Liabilities of ICP (with respect to the Distribution Centers), CDS Holdings or Coastline for response costs, natural resources damages or attorneys' fees pursuant to CERCLA or any other Environmental Laws.

(g) Without limiting the generality of the foregoing, to the Knowledge of ICP, except as disclosed on SCHEDULE 3.22(g), no facts, events or conditions relating to the real property leased by ICP (pursuant to the Facility Leases) or by CDS Holdings or Coastline, shall prevent, hinder or limit continued compliance in all material respects with Environmental Laws, give rise to any corrective, investigatory or remedial obligations pursuant to Environmental Laws, give rise to any other Liabilities pursuant to Environmental Laws (including, without limitation, those Liabilities relating to onsite or offsite releases or threatened releases of Hazardous Materials, substances or wastes, personal injury, property damage or natural resource damage) that could reasonably be expected to have a material adverse effect upon the Acquired Business.

(h) Except as disclosed in SCHEDULE 3.22(h), none of ICP (with respect to the Distribution Centers), CDS Holdings or Coastline has, either expressly or by operation of Law,

assumed or undertaken any Liability or corrective, investigatory or remedial obligation of any other Person relating to any Environmental Laws. To the Knowledge of ICP, no Lien, whether recorded or unrecorded, in favor of any Governmental Authority, relating to any Liability of any of ICP, CDS Holdings or Coastline arising under any Environmental Laws, has attached to any real property leased by ICP (under a Facility Lease) or by CDS Holdings or Coastline.

SECTION 3.23 RELATIONSHIP WITH AFFILIATES. Except as set forth in SCHEDULE 3.23, neither ICP nor any Affiliate of ICP provides or supplies assets, services or facilities which are individually or in the aggregate material to the operation of the Acquired Business at the Distribution Centers or to CDS Holdings or Coastline. Except as disclosed on SCHEDULE 3.23, each of the transactions listed in SCHEDULE 3.23 is engaged in on an arm's- length basis.

SECTION 3.24 BROKERS. No broker or other representative has acted on behalf of ICP, CDS Holdings or Coastline in connection with the transaction contemplated hereby in such manner as to give rise to any valid claim by any Person against A&C, CDS Holdings or Coastline for a finder's fee, brokerage commission or similar payment.

SECTION 3.25 NO GUARANTEES. Except as disclosed on SCHEDULE 3.25, no Liabilities of ICP or any of its Affiliates is guaranteed by or subject to a similar contingent obligation of either CDS Holdings or Coastline.

SECTION 3.26 BANK ACCOUNTS. SCHEDULE 3.26 sets forth a complete and correct list containing the names of each bank in which CDS Holdings or Coastline has an account or safe deposit or lock box, the account or box number, as the case may be, and the name of every Person authorized to draw thereon or having access thereto.

SECTION 3.27 CUSTOMERS AND SUPPLIERS. SCHEDULE 3.27 hereto lists the ten (10) largest vendors and the twenty-five (25) largest customers of Coastline and of each of the Distribution Centers during the eleven (11) month period ending November 30, 1996, together with the dollar amount of goods purchased by each such customer or, in the case of vendors, the dollar amount of goods or services purchased from such vendor during such period. To the Knowledge of ICP, no Person listed on SCHEDULE 3.27 has indicated or threatened that it intends to materially decrease the amount of business that it does with Coastline or the applicable Distribution Center.

SCHEDULE 3.27 also summarizes all current customer incentive programs offered or used by or at Coastline or any Distribution Center, whether written or oral and whether or not deemed or considered to be legally enforceable.

SECTION 3.28 WARRANTIES AND PRODUCT CLAIMS. SCHEDULE 3.28 summarizes any differences in the warranties offered by, or the warranty or repair practices of, or extended warranties offered by, Coastline or any Distribution Center from those offered by ICP with respect to ICP Products. There is not presently, nor has there been in the past three (3) years, any failure of any product sold by Coastline or any Distribution Center which did, or which reasonably could be expected to, require a general recall or repair or replacement campaign that could have a material adverse effect upon the Acquired Business.

With the exception of product claims covered by the manufacturer's warranties, no product liability claim is pending or, to the knowledge of ICP, threatened against Coastline, CDS Holdings or ICP (with respect to the Acquired Business).

SCHEDULE 3.28 also identifies the warranty and warranty services provided by ICP to the Distribution Centers and Coastline with respect to ICP Products.

SECTION 3.29 ABSENCE OF UNDISCLOSED LIABILITIES. Except as set forth on SCHEDULE 3.29, none of ICP (with respect to the Acquired Business), CDS Holdings or Coastline has any Liability arising out of transactions entered into prior to the Closing, or any action or inaction prior to the Closing, or any state of facts existing prior to the Closing other than: (a) Liabilities reflected on the Financial Statement; (b) Liabilities which have arisen after the date of the Financial Statement in the Ordinary Course of Business (none of which is a liability resulting from breach of contract, breach of warranty, tort, infringement, claim or lawsuit); (c) other Liabilities expressly disclosed in this Agreement or in the other Schedules to this Agreement or of the type that would be required to be disclosed in this Agreement or the Schedules hereto but for the materiality qualifications contained herein; (d) Liabilities that have been repaid, discharged or otherwise extinguished; or (e) Liabilities that do not exceed, individually, \$25,000 or, collectively, \$100,000.

SECTION 3.30 DISCLOSURE. The representations and warranties of ICP contained in this Agreement and in any schedule, certificate, or agreement furnished by ICP to A&C pursuant to this Agreement do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein or therein, in the light of the circumstances under which they were made, not misleading.

Notwithstanding the fact that the disclosure schedules attached hereto are numbered and have been prepared to related to specific representations and warranties contained in this Article III, each of the representations and warranties made herein is modified and supplemented by each of the disclosures in the disclosure schedules. Also, the parties agree that ICP shall have no liability for the untruth or breach of any representations or warranties contained in this Article III to the extent that A&C, as of the Closing Date, has knowledge of

information that would render such representation or warranty untrue, false or misleading in any respect.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF A&C

A&C hereby represents and warrants to ICP:

SECTION 4.1 ORGANIZATION AND AUTHORITY. Each of A&C and Watsco is a corporation duly organized, validity existing and in good standing under the laws of the State of Florida. Each of A&C and Watsco is duly qualified as a foreign corporation and is in good standing in each jurisdiction where the character of their respective properties owned or held under lease or the nature of their respective activities makes such qualification necessary and where the failure to so qualify would have a material adverse effect upon A&C or Watsco. A&C has full corporate power and authority to enter into this Agreement and to consummate the transactions contemplated herein. Watsco has full corporate power and authority to enter into the Watsco Guaranty.

SECTION 4.2 ARTICLES OF INCORPORATION; BYLAWS. True and complete copies of the articles of incorporation and by-laws of A&C and Watsco, as amended to and including the date hereof, have been delivered to ICP.

SECTION 4.3 DUE AUTHORIZATION, EXECUTION AND DELIVERY. A&C has full corporate authority to execute and deliver this Agreement and the Related Agreements to which it is party, to perform its obligations hereunder and under the Related Agreements and to consummate the transactions contemplated hereby and thereby, and A&C has duly executed and delivered this Agreement. This Agreement constitutes (and, when executed and delivered, the Related Agreements to which it is a party will constitute) the legal, valid and binding obligations of A&C enforceable against it in accordance with its terms, except that such enforcement (a) may be limited by bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally, and (b) is subject to the availability of equitable remedies, as determined in the discretion of the court before which such a proceeding may be brought. Watsco has full corporate authority to execute and deliver the Watsco Guaranty and, when executed and delivered, the Watsco Guaranty will constitute the legal, valid and binding obligation of Watsco enforceable against it in accordance with its terms, except that such enforcement (a) may be limited by bankruptcy, insolvency, moratorium or similar laws affecting creditors' rights generally, and (b) is subject to the availability of equitable remedies, as determined in the discretion of the court before which such a proceeding may be brought.

SECTION 4.4 CONSENTS; NO CONFLICTS. Except as set forth in SCHEDULE 4.4 and for applicable requirements of the HSR Act and consents and notices that have been obtained or given, (a) no

consent, authorization, Permit or approval of any Person or from any Governmental Authority is required as a condition to the execution and delivery of this Agreement by A&C or any of the Related Agreements and the consummation of the transactions contemplated by this Agreement and the Related Agreements by A&C or for the execution and delivery of the Watsco Guaranty by Watsco, and (b) the execution and delivery of this Agreement and the Related Agreements by A&C and the consummation of the transactions contemplated hereby and thereby by A&C, and the execution and delivery of the Watsco Guaranty by Watsco, will not conflict with, give rise to a right of termination of, contravene or constitute a default under, or be an event which with the giving of notice or passage of time or both will become a default under, or give to others any rights of termination or cancellation of, or give rise to a right of acceleration of the performance required by or maturity of, or result in the creation of any Lien, liabilities or loss of any rights with respect to A&C or Watsco (which could reasonably be expected to have a material adverse effect on A&C or Watsco) pursuant to any of the terms, conditions or provisions of or under, any applicable Law, the articles of incorporation or by-laws of A&C or Watsco, or under any Contract binding upon A&C or Watsco or to which any of the assets or properties of A&C or Watsco is subject.

SECTION 4.5 BROKERS. No broker or other representative has acted on behalf of A&C in connection with the transaction contemplated hereby in such manner as to give rise to any valid claim by any Person against ICP for a finder's fee, brokerage commission or similar payment.

SECTION 4.6 SECURITIES MATTERS.

(a) A&C and Affiliates of A&C have received, read and are familiar with all information concerning the Shares and the business and operations of CDS Holdings and Coastline that have been provided to them for the purpose of making an informed investment decision with respect to the Shares.

(b) A&C and Affiliates of A&C recognize the highly speculative nature of an investment in the Shares.

(c) A&C's ultimate parent, Watsco, is an "accredited investor" as that term is defined in Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended, (the "1933 ACT").

(d) A&C and Affiliates of A&C who are assisting A&C have sufficient knowledge and experience in financial and business matters such that A&C is capable of evaluating the merits and risks of an investment in the Shares.

(e) A&C will acquire the Shares for A&C's own account for investment and not with a view to, or for resale in connection with, any distribution of the Shares within the meaning of the 1933 Act.

(f) A&C acknowledges that the Shares are not registered under the 1933 Act and may not be transferred, assigned or otherwise disposed of unless the Shares are subsequently registered under the 1933 Act or an exemption from such registration is available.

SECTION 4.7 DISCLOSURE. The representations and warranties of A&C contained in this Agreement, and in any schedule, certificate or agreement furnished by A&C pursuant to this Agreement do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements herein or therein, in light of the circumstances under which they were made, not misleading.

ARTICLE V
ADDITIONAL AGREEMENTS OF ICP OR A&C

SECTION 5.1 ICP'S OPERATION OF BUSINESS. From the date hereof until the Closing Date, except to the extent A&C otherwise agrees in writing:

(a) ICP shall (and shall cause CDS Holdings and Coastline to) operate the Acquired Business in the Ordinary Course of Business and use reasonable commercial efforts to preserve the present business organization and present relationships with Persons having material business dealings with the Acquired Business and to retain all Employees currently employed by ICP at the Distribution Centers or by Coastline or CDS Holdings.

(b) ICP shall not (and shall cause CDS Holdings and Coastline not to) take any action or fail to take any action that would cause any of the representations and warranties made by ICP in this Agreement not to remain true and correct in all material respects as if made at and as of the Closing Date.

(c) ICP shall give prompt written notice to A&C (i) of any material development affecting the Acquired Business or the Transferred Assets, assets of Coastline or CDS Holdings, or the financial condition, operations and results of operations of ICP, CDS Holdings and Coastline, (ii) if any representation or warranty of ICP is or becomes no longer true in any material respect, and (iii) of any material development affecting the ability of ICP to consummate the transactions contemplated by this Agreement.

(d) ICP shall not (and shall cause CDS Holdings and Coastline not to) engage in any activity other than in the Ordinary Course of Business which would (i) accelerate the collection of its accounts or notes receivable, (ii) delay the payment or performance of its accounts payable or other Transferred Obligations, (iii) delay its capital expenditures, (iv) reduce or otherwise restrict, or unduly

increase, the amount of inventory of Coastline or of the inventory included in the Transferred Assets or (v) terminate, hire or relocate Employees of the Acquired Business.

(e) ICP shall not (and shall cause CDS Holdings and Coastline not to):

(i) remove from or sell, lease or otherwise dispose of, any assets located at any Distribution Center or business location of Coastline other than Inventory sold in the Ordinary Course of Business;

(ii) acquire, enter into an option to acquire or lease or exercise an option or Contract to acquire or lease additional real property, incur additional indebtedness for borrowed money or encumber assets;

(iii) in the case of CDS Holdings and Coastline, (A) amend their respective Articles of Incorporation or Bylaws; (B) issue, transfer from treasury or allocate any additional shares of capital stock, effect any stock split, reverse stock split, stock dividend, recapitalization or other similar transaction; or (C) grant, confer or award any option, warrant, conversion right or other right not existing on the date hereof to acquire any shares of the capital stock of CDS Holdings or Coastline;

(iv) increase any compensation or enter into or amend any employment agreement or Contract with any Employee or adopt any new Benefit Plan covering any Employee, amend any existing Benefit Plan covering any Employee or the individual benefits provided to any individual Employee in any material respect, except for changes which are less favorable to participants in such plans, or terminate any existing Benefit Plan covering any Employee except as contemplated by this Agreement;

(v) declare or set aside any dividend or any other distribution or payment with respect to any shares of the capital stock of CDS Holdings, or make any commitment for any such action which would be distributed after Closing;

(vi) make any loans, advances or capital contributions to, or investments in, any other Person;

(vii) to amend, extend or allow to lapse any Contract listed on SCHEDULE 3.16 or any lease of real or personal property listed on the Schedules hereto; or

(viii) enter into any Contract that would have been required to be disclosed on SCHEDULE 3.16 hereof or any lease for personal property.

SECTION 5.2 ACCESS TO BOOKS AND RECORDS OF BUSINESS. From the date hereof until the Closing Date or any earlier termination of this Agreement, ICP shall (and shall cause CDS Holdings and Coastline to) give A&C and its officers, employees, counsel, financial advisers, consultants and other representatives (the "REPRESENTATIVES") access upon reasonable notice and during normal business hours to the appropriate employees of ICP, CDS Holdings and Coastline, to ICP's, CDS Holdings' and Coastline's accountants, to ICP's, CDS Holdings' and Coastline's premises and to furnish A&C, subject to Section 6.1 of this Agreement, with all such information concerning ICP, CDS Holdings and Coastline as A&C may reasonably request in order to review the legal, financial and business condition and affairs of ICP, CDS Holdings and Coastline.

SECTION 5.3 EXCLUSIVITY. Until Closing or until this Agreement is terminated by its terms, ICP shall not (and shall not cause or permit any of its Affiliates or Representatives or any other Person acting on behalf of ICP or any of its Affiliates to) (a) solicit, initiate or encourage the submission of any proposal or offer from any Person relating to any (i) liquidation, dissolution or recapitalization of CDS Holdings or Coastline, (ii) merger or consolidation of CDS Holdings or Coastline with or into any other Person, (iii) acquisition or purchase of the Shares or any of the Transferred Assets or of any assets of CDS Holdings or Coastline (other than sales of inventory in the Ordinary Course of Business), or of any equity interest in, or any rights to acquire equity interests in or of CDS Holdings or Coastline or (iv) any similar transaction or business combination involving any of Distribution Centers, CDS Holdings or Coastline or (b) participate in any discussions or negotiations regarding, furnish any information with respect to, assist or participate in, or facilitate in any other manner any effort or attempt by any other Person to do or seek any of the foregoing. ICP shall (and ICP shall cause each of its Affiliates and Representatives to) discontinue immediately any negotiations or discussion with respect to any of the foregoing.

SECTION 5.4 CONSENTS. To the extent that an attempted assignment or transfer of any Transferred Contract or Equipment Lease to be transferred to and assumed by A&C hereunder, without the consent of a Person other than ICP (that is a party thereto) would constitute a breach thereof, this Agreement shall not constitute an assignment or attempted assignment thereof. In such a case, ICP shall cooperate with A&C in any reasonable back-to-back arrangements requested by A&C in order to provide for A&C the benefits intended to be assigned under any such Transferred Contract or Equipment Lease (unless the third party thereto rightfully terminates or cancels such Transferred Contract or Equipment Lease), including, without limitation, the enforcement by ICP for the benefit of A&C of any and all rights of ICP

against a third party to such Contract or Equipment Lease arising out of the breach by such third party or otherwise.

SECTION 5.5 POST-CLOSING RECEIPTS OF ICP. ICP shall hold in trust for, and immediately remit to A&C, any amounts collected or received by ICP that relate to any of the Transferred Assets or to sales made on or following the date hereof and following Closing that relate to the Acquired Business.

SECTION 5.6 A&C DIRECTORS. Following closing and continuing until the expiration or termination of both of the Distribution Agreements, A&C shall allow ICP to appoint two (2) representatives to its Board of Directors, such representatives to be executive officers of ICP. A&C shall cause its Board of Directors to consist of five (5) Directors during such period.

ARTICLE VI
ADDITIONAL MUTUAL AGREEMENTS

SECTION 6.1 CONFIDENTIALITY. Each party hereto shall, and shall cause its Affiliates and its Representatives to, (a) hold in strict confidence and not utilize in its respective business or otherwise all information and documents concerning any other party or any of its Affiliates ("CONFIDENTIAL INFORMATION") furnished to it by such other party or its Representatives in connection with this Agreement or the transactions contemplated hereby except where disclosure may be required by judicial or administrative process or law or as may be necessary for each party to enforce its rights under this Agreement (or any documents executed pursuant hereto). Notwithstanding the foregoing, the following will not constitute "Confidential Information" for purposes of this Agreement: (i) Information which was already in the possession of the receiving party or its Affiliates prior to the date hereof (unless previously furnished pursuant to a confidentiality agreement), (ii) information which is independently developed by the receiving party or any Affiliate thereof without access to the Confidential Information, (iii) information which is obtained or was previously obtained by the receiving party from a third Person who, insofar as is known to the receiving party and its Affiliates, is not prohibited from transmitting the information to the receiving party by a contractual, legal or fiduciary obligation to the other party or any of its Affiliates, or (iv) information which is or becomes generally available to the public other than as a result of a disclosure by the receiving party or any of its Affiliates or Representatives. Notwithstanding the foregoing, following the Closing, the foregoing restrictions shall not apply to A&C's use of Confidential Information in connection with the operation of the Acquired Business.

SECTION 6.2 FURTHER ASSURANCES. Each party agrees to cooperate fully with the other parties hereto and to execute and deliver or cause to be executed and delivered at all reasonable times and places such additional instruments and documents as the

other party may reasonably request for the purpose of carrying out this Agreement.

SECTION 6.3 HSR FILINGS. The parties acknowledge that they have made all filings, reports and documents as may be necessary to comply with the HSR Act in connection with the transaction contemplated by this Agreement. The parties shall cooperate with and assist one another to take such action as may be reasonably required and as permitted under Law in connection with such filings.

SECTION 6.4 TAX AGREEMENTS.

(a) RETURNS AND INCLUSION OF INCOME FOR PERIODS THROUGH THE CLOSING DATE. ICP shall file the Tax Returns for and include the income of ICP, CDS Holdings and Coastline, respectively, (including any deferred income triggered into income by Regulation Section 1.1502-13 and Regulation Section 1.1502-14 and any excess loss accounts taken into income under Regulation Section 1.1502-19) on ICP's federal consolidated Tax Returns and on all other Tax Returns for all periods through the Closing Date and pay any Taxes attributable to such income. The income of ICP, CDS Holdings and Coastline shall be apportioned to the period up to and including the Closing Date and the period after the Closing Date by closing the books of CDS Holdings and Coastline as of the end of the Closing Date.

(b) COOPERATION. ICP and A&C shall reasonably cooperate, and shall cause their respective Affiliates, officers, employees, agents, auditors and Representatives reasonably to cooperate, in preparing and filing all Tax Returns, including, but not limited to, maintaining and making available to each other all records necessary in connection with Taxes and in resolving all disputes and audits with respect to all taxable periods relating to Taxes. A&C shall furnish Tax information to ICP for inclusion in ICP's Tax Returns for the period which includes the Closing Date in accordance with CDS Holdings' and Coastline's past custom and practice.

(c) AMENDED RETURNS. ICP shall be responsible for filing any amended consolidated, combined or unitary Tax Returns related to CDS Holdings and Coastline for all periods ending on the Closing Date which are required as a result of examination adjustments made by the Internal Revenue Service or by the applicable state, local or foreign taxing authorities for such taxable years as finally determined. For those jurisdictions in which separate Tax Returns are filed by CDS Holdings and Coastline, any required amended returns resulting from such examination adjustments, as finally determined, shall be prepared by ICP and furnished to A&C, or its successor, for approval (which approval shall not be unreasonably withheld or delayed), signature and filing at least 30 days prior to the due date

for filing such returns. Nothing in this Agreement shall require ICP to amend any Tax Return other than as set forth above.

(d) CARRYBACKS. ICP shall immediately pay to A&C any Tax refund resulting from a carryback of a post-Closing Tax attribute of CDS Holdings and Coastline into the ICP consolidated Tax Return, when such refund is realized by ICP. A&C shall immediately indemnify and hold harmless ICP from and against any and all Taxes that ICP or any of its Affiliates may suffer or incur as a result of, arising out of, relating, in the nature of or caused by disallowance of any such post-Closing Tax attribute(s), on audit or otherwise. For purposes of this subsection (d), any Tax attributes carried back by CDS Holdings or Coastline shall be considered to produce a refund or reduce Tax liability only after all Tax attributes of ICP and other members of ICP's Affiliated Group have been used.

(e) ORDINARY CONDUCT. On the Closing Date, A&C shall cause CDS Holdings and Coastline to conduct their businesses in the ordinary course in substantially the same manner as presently conducted and on the Closing Date shall not permit CDS Holdings and Coastline to effect any extraordinary transactions (other than any such transactions expressly required by applicable law or expressly permitted by this Agreement) that could result in Tax Liability to CDS Holdings and Coastline for periods on or before the Closing Date in excess of Tax Liability associated with the conduct of its business in the Ordinary Course of Business.

(f) TAX SHARING AGREEMENTS. ICP shall cause the provisions of any Tax sharing agreement or policy between ICP and any of its Affiliates (other than CDS Holdings and Coastline), on the one hand, and CDS Holdings and Coastline, on the other hand, to be terminated on or before the Closing Date.

(g) TAXES OF OTHER PERSONS. ICP shall be responsible for and pay any Liability of CDS Holdings and Coastline for Taxes of ICP or any of its Affiliates other than CDS Holdings and Coastline under Regulation Section 1.1502-6 (or any similar provisions of state, local or foreign law).

SECTION 6.5 REASONABLE EFFORTS TO CLOSE. Each party shall use commercially reasonable efforts to (a) take or cause to be taken all actions, and do or cause to be done all things, which are necessary, proper or advisable to cause any other party's conditions set forth in Articles VII and VIII to be fully satisfied (but not waived), and (b) consummate and make effective as promptly as practicable the transactions contemplated by this Agreement, including using commercially reasonable efforts to obtain the consents and approvals referred to in Sections 7.7 and 8.6.

SECTION 6.6 MAINTENANCE OF RECORDS. Inasmuch as certain of ICP's books, records and documents are to be included as Transferred Assets and sold to A&C hereunder, and certain other of ICP's books, records and documents relating to the Acquired Business are to be retained by ICP, and A&C or ICP may have need to have access to the books, records and documents held by the other after the date hereof, ICP and A&C agree that each shall maintain (or shall provide for a designated representative to maintain) for at least six (6) years after the date hereof (or for such longer period as may be required by applicable law) the respective books, records and documents sold or retained hereunder. Neither ICP nor A&C shall destroy or otherwise dispose of any of such books, records, or documents after the end of the period referred to in the preceding sentence without first giving ninety (90) days prior written notice to the other of its intent to so destroy or otherwise dispose thereof, specifying the books, records and documents involved and giving such other party sixty (60) days within which such other party, at such other party's expense, may assume physical possession thereof.

During such six (6) year period, representatives of A&C shall be permitted to inspect and make copies of any of such books, records, and documents related to the Acquired Business retained by ICP during normal business hours and upon reasonable notice for any reasonable business purpose. During such six (6) year period, representatives of ICP shall be permitted to inspect and make copies of books, records and documents sold to A&C hereunder during normal business hours and upon reasonable notice for any reasonable business purpose.

SECTION 6.7 COOPERATION IN LITIGATION. Each party hereto will reasonably cooperate with the other party hereto in the defense or prosecution of any litigation or proceeding (or order or settlement in connection therewith) already instituted or which may be instituted hereafter against or by any party hereto relating to or arising out of the conduct of the Acquired Business prior to the date hereof (other than litigation arising out of the transactions contemplated by this Agreement). The party requesting such cooperation shall pay the out-of-pocket expenses (including, but not limited to, reasonable attorneys fees and expenses) of the party providing such cooperation and of its employees and agents reasonably incurred in connection with providing such cooperation, but shall not be responsible to reimburse the party providing such cooperation for the salaries or costs of fringe benefits or other similar expenses paid by the party providing such cooperation to its employees and agents while assisting in the defense or prosecution of any such litigation or proceeding. Notwithstanding the foregoing, this Section 6.7 shall not apply to any litigation which is the subject of a claim for indemnification pursuant to Article IX hereof.

SECTION 6.8 A&C EMPLOYMENT OFFERS. A&C shall offer employment to all of the Employees of ICP actively employed by ICP at the Distribution Centers on the Closing Date. Such offers

shall be at comparable levels of compensation as such Employees enjoyed with ICP on the date hereof.

SECTION 6.9 BENEFIT PLANS. On or before the Closing Date, Coastline shall take all action necessary to timely adopt a valid resolution of Coastline's board of directors to terminate the Pension Benefit Plans sponsored and maintained by Coastline, effective as of the Closing Date. After the Closing Date, ICP shall take all action necessary or otherwise appropriate to distribute the vested accrued benefits of Employees of ICP or its Affiliates participating in any Pension Benefit Plan sponsored, maintained, or contributed to by ICP pursuant to the terms of such Pension Benefit Plans and, to the extent applicable, consistent with the provisions of Code Section 401(k)(10). Except as described in this Section or as contemplated by any Schedule to this Section, prior to the Closing, ICP, CDS Holdings, nor Coastline shall adopt or become obligated under any new Benefit Plan and shall not materially change the terms of any existing Benefit Plan.

SECTION 6.10 SERVICES AGREEMENT. Promptly after the execution of this Agreement, the parties agree to negotiate in good faith the scope, terms and conditions of the Services Agreement. ICP acknowledges that the purpose of the Services Agreement is to ensure that ICP will continue to provide certain of the support services to the Distribution Center, CDS Holdings and Coastline that it provided to them prior to the date hereof for a reasonable period of time after the Closing Date in order to allow A&C to transition the change in management of the Acquired Business. A&C agrees to reimburse all reasonable out-of-pocket costs incurred by ICP in providing such services.

ARTICLE VII
CONDITIONS TO OBLIGATIONS OF A&C

The obligations of A&C to consummate the transactions provided for herein on the Closing Date are subject to the fulfillment on or before the Closing Date of each of the following conditions, except to the extent that A&C may, in its absolute discretion, waive one or more thereof in writing in whole or in part:

SECTION 7.1 ACCURACY OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of ICP contained herein shall be true in all material respects on and as of the Closing Date with the same force and effect as if made on and as of such date.

SECTION 7.2 PERFORMANCE OF AGREEMENTS. ICP shall have performed in all material respects all obligations and agreements, and complied in all material respects with all covenants, contained in this Agreement, to be performed and complied with by ICP at or prior to the Closing Date.

SECTION 7.3 CLOSING DELIVERIES. ICP shall have delivered to A&C the documents and instruments described in Section 2.7.

SECTION 7.4 MATERIAL ADVERSE CHANGE. There shall have been no material adverse change in the business, operations, properties, condition (financial or otherwise), business prospects, liabilities or relations with labor, customers or suppliers of the Acquired Business (as it existed on the date hereof) whether or not arising in the Ordinary Course of Business.

SECTION 7.5 NO ADVERSE PROCEEDINGS. No action, suit or proceeding before any Governmental Authority shall have been commenced, no investigation by any Governmental Authority shall have been commenced, and no action, suit or proceeding by any Governmental Authority shall have been threatened, against any of the parties to this Agreement or any of their Affiliates, wherein an unfavorable judgment, order, decree, stipulation or injunction would (a) prevent consummation of any of the transactions contemplated by this Agreement, (b) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, or (c) adversely affect the right of A&C to own, operate, or control the Acquired Business, the Transferred Assets or the Shares following Closing (and no such judgment, order, decree, stipulation, injunction, or charge shall be in effect.)

SECTION 7.6 OTHER ASSURANCES. ICP shall have delivered to A&C such other and further certificates, assurances and documents as A&C may reasonably request in order to evidence the accuracy of the representations and warranties of the ICP, the performance of covenants and agreements to be performed by ICP pursuant hereto at or prior to the Closing, and the fulfillment of the conditions to the obligations of A&C.

SECTION 7.7 CONSENTS AND APPROVALS. All consents, waivers, authorizations and approvals of any Governmental Authority, domestic or foreign, and of any other Person required in connection with the execution, delivery and performance of this Agreement, shall have been obtained and shall be in full force and effect on the Closing Date and the applicable waiting period under the HSR Act shall have expired or been terminated.

SECTION 7.8 RESIGNATION OF OFFICERS AND DIRECTORS. All officers and directors of CDS Holdings and Coastline whose resignations shall have been requested by A&C prior to the Closing Date shall have submitted their resignations or been removed from office effective as of the Closing Date.

ARTICLE VIII
CONDITIONS TO OBLIGATIONS OF ICP

The obligations of ICP to consummate the transactions provided for herein on the Closing Date are subject to the

fulfillment on or before the Closing Date of each of the following conditions, except to the extent that ICP may, in its absolute discretion, waive one or more thereof in writing in whole or in part:

SECTION 8.1 ACCURACY OF REPRESENTATIONS AND WARRANTIES. The representations and warranties of A&C contained herein shall be true in all material respects on and as of the Closing Date with the same force and effect as if made on and as of such date.

SECTION 8.2 PERFORMANCE OF AGREEMENTS. A&C shall have performed in all material respects all obligations and agreements, and complied in all material respects with all covenants, contained in this Agreement, to be performed and complied with by A&C at or prior to the Closing Date.

SECTION 8.3 CLOSING DELIVERIES. A&C shall have delivered to ICP all of the documents and other deliveries referred to in Section 2.8 hereof.

SECTION 8.4 NO ADVERSE PROCEEDINGS. No action, suit or proceeding before any Governmental Authority shall have been commenced, no investigation by any Governmental Authority shall have been commenced, and no action, suit or proceeding by any Governmental Authority shall have been threatened, against any of the parties to this Agreement or any of their Affiliates or Coastline wherein an unfavorable judgment, order, decree, stipulation or injunction would (a) prevent consummation of any of the transactions contemplated by this Agreement, (b) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, or (c) adversely affect the right of A&C to own, operate, or control the Shares, the Transferred Assets, the Acquired Business, the Distribution Centers or Coastline following Closing (and no such judgment, order, decree, stipulation, injunction, or charge shall be in effect.)

SECTION 8.5 OTHER ASSURANCES. A&C shall have delivered to the ICP such other and further certificates, assurances and documents as the ICP may reasonably request in order to evidence the accuracy of the representations and warranties of A&C, the performance of covenants and agreements to be performed by A&C pursuant hereto at or prior to the Closing, and the fulfillment of the conditions to the obligations of ICP.

SECTION 8.6 CONSENTS AND APPROVALS. All consents, waivers, authorizations and approvals of any Governmental Authority, domestic or foreign, and of any other Person required in connection with the execution, delivery and performance of this Agreement, shall have been obtained and shall be in full force and effect on the Closing Date other than consents which A&C shall have waived and the applicable waiting period under the HSR Act shall have expired or been terminated.

SECTION 8.7 PAYMENT. The Closing Payment shall have been paid as provided in Article II.

ARTICLE IX
SURVIVAL AND INDEMNIFICATION

SECTION 9.1 SURVIVAL. Subject to Section 9.7 hereof the parties hereto agree that their respective representations and warranties, covenants and agreements contained in this Agreement shall survive the Closing.

SECTION 9.2 INDEMNIFICATION BY ICP. Subject to the other provisions of this Article IX, ICP shall indemnify and hold harmless A&C and its Affiliates from and against any and all Losses suffered or incurred by A&C and its Affiliates after the Closing as a result of or arising out of:

(a) The falsity or incorrectness of or breach of any representation or warranty of ICP in this Agreement or in any schedule, certificate or agreement furnished to A&C by or on behalf of ICP or any of its Affiliates pursuant to this Agreement;

(b) the failure by ICP or any of its Affiliates to perform any covenant or agreement of ICP or any of its Affiliates under this Agreement or under any schedule, certificate or agreement furnished to A&C by or on behalf of ICP or any of its Affiliates pursuant to this Agreement; or

(c) the matter described in SCHEDULE 3.17 under the heading "Robert Sorenson v. Coastline Distributing, Inc."

SECTION 9.3 INDEMNIFICATION BY A&C. Subject to the other provisions of this Article IX, A&C shall indemnify and hold harmless ICP and its Affiliates from and against any and all Losses suffered or incurred by ICP and its Affiliates after the Closing as a result of or arising out of:

(a) The falsity or incorrectness of or breach of any representation or warranty of A&C or any of its Affiliate in this Agreement or in any schedule, certificate or agreement furnished to ICP by or on behalf of A&C or any of its Affiliates pursuant to this Agreement; or

(b) the failure by A&C or any of its Affiliates to perform any covenant or agreement of A&C or any of its Affiliates under this Agreement or under any schedule, certificate or agreement furnished to ICP by or on behalf of A&C or any of its Affiliates pursuant to this Agreement.

SECTION 9.4 METHOD OF ASSERTING CLAIMS. All claims for indemnification by any Indemnified Party under this Article IX shall be asserted and resolved as follows:

(a) THIRD PARTY CLAIMS. If any claim or demand in respect of which an Indemnified Party might seek indemnity under this Article IX is asserted against such Indemnified Party by a Person (a "THIRD PARTY CLAIM") other than ICP or A&C (it being understood that claims of Affiliates of ICP and A&C shall not be considered Third Party Claims), the Indemnified Party shall give written notice and the details thereof including copies of all relevant pleadings, documents and information (collectively a "THIRD PARTY CLAIM NOTICE") to the Indemnifying Party within a period of thirty (30) days following the assertion of the Third Party Claim against the Indemnified Party (the "THIRD PARTY CLAIM NOTICE PERIOD"). If the Indemnified Party fails to provide the Third Party Claim Notice within the Third Party Claim Notice Period, the Indemnifying Party will not be obligated to indemnify the Indemnified Party with respect to such Third Party Claim to the extent that the Indemnifying Party's ability to defend has been prejudiced by such failure of the Indemnified Party. The Indemnifying Party will notify the Indemnified Party within a period of thirty (30) days after its receipt of the Third Party Claim Notice by the Indemnifying Party (the "THIRD PARTY CLAIM RESPONSE PERIOD"):

(i) Whether the Indemnifying Party disputes its liability to the Indemnified Party under this Article IX with respect to such Third Party Claim; and

(ii) whether the Indemnifying Party desires, at its sole cost and expense, to defend the Indemnified Party against such Third Party Claim.

If the Indemnifying Party notifies the Indemnified Party within the Third Party Claim Response Period that the Indemnifying Party desires to defend the Indemnified Party against the Third Party Claim, then the Indemnifying Party at its sole cost and expense shall defend, with counsel reasonably satisfactory to the Indemnified Party, such Third Party Claim by all appropriate proceedings, which proceedings will be diligently prosecuted to a final conclusion or will be settled at the discretion of the Indemnifying Party (with the consent of the Indemnified Party which shall not be unreasonably withheld or delayed). The Indemnified Party will cooperate in such defense at the sole cost and expense of the Indemnifying Party. The Indemnified Party may, at its sole cost and expense, at any time prior to the Indemnifying Party's delivery of the notice referred to in the last sentence of the preceding paragraph, file any pleadings or take any other action that the Indemnified Party reasonably believes to be necessary or appropriate to protect its interests. The Indemnified Party, at its expense, may participate in, but not control, any defense or settlement of any Third Party Claim conducted by the Indemnifying Party pursuant to this Section 9.4(a).

If the Indemnifying Party fails to notify the Indemnified Party within the Third Party Claim Response Period that the Indemnifying Party desires to defend the Third Party Claim or if the Indemnifying Party gives such notice but fails to prosecute diligently or settle the Third Party Claim, then the Indemnified Party shall defend, at the sole cost and expense of the Indemnifying Party, the Third Party Claim by all appropriate proceedings, which proceedings will be prosecuted by the Indemnified Party in a reasonable manner and in good faith or will be settled at the discretion of the Indemnified Party (with the consent of the Indemnifying Party which shall not be unreasonably withheld or delayed). The Indemnifying Party shall, at its sole cost and expense, cooperate in such defense. Notwithstanding the foregoing provisions of this paragraph, if the Indemnifying Party is determined not to be liable for such Third Party Claim pursuant to the last paragraph of this Section 9.4(a) and Section 9.4(c), the Indemnifying Party will not be required to bear the costs and expenses of the Indemnified Party's defense or the Indemnifying Party's participation therein pursuant to this paragraph, and the Indemnified Party will reimburse the Indemnifying Party in full for all reasonable costs and expenses incurred by the Indemnifying Party in connection with such defense.

If the Indemnifying Party notifies the Indemnified Party that it does not dispute its liability to the Indemnified Party with respect to the Third Party Claim under this Article IX or fails to notify the Indemnified Party within the Third Party Claim Response Period whether the Indemnifying Party disputes its liability to the Indemnified Party with respect to such Third Party Claim, the actual Losses as finally determined will be conclusively deemed a liability of the Indemnifying Party under this Article IX, and the Indemnifying Party shall pay the amount of such Losses to the Indemnified Party on demand. If the Indemnifying Party notifies the Indemnified Party within the Third Party Claim Response Period that the Indemnifying Party disputes its liability to the Indemnified Party with respect to such claim, the Indemnifying Party and the Indemnified Party will proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations within a period of thirty (30) days from the date of such notice, such dispute shall be resolved by arbitration in accordance with Section 9.4(c) hereof.

Notwithstanding the foregoing, ICP and A&C agree that following Closing A&C shall control the defense and settlement of the matter described in Section 9.2(c).

(b) OTHER CLAIMS. In the event any Indemnified Party should have a claim under this Article IX against any Indemnifying Party that does not involve a Third Party Claim or a claim under Article II for a purchase price adjustment (which Article contains its own applicable dispute

resolution mechanism), the Indemnified Party shall promptly give written notice and the details thereof, including copies of all relevant information and documents (collectively, an "INDEMNITY NOTICE"), to the Indemnifying Party within a period of thirty (30) days following the discovery of the claim by the Indemnified Party (the "CLAIM NOTICE PERIOD"). The failure by any Indemnified Party to give the Indemnity Notice within the Claim Notice Period shall not impair the Indemnified Party's rights hereunder except to the extent that an Indemnifying Party demonstrates that it has been prejudiced thereby. The Indemnifying Party shall notify the Indemnified Party within a period of thirty (30) days after the receipt of the Indemnity Notice by the Indemnifying Party (the "INDEMNITY RESPONSE PERIOD") whether the Indemnifying Party disputes its liability to the Indemnified Party under this Article IX with respect to such claim. If the Indemnifying Party notifies the Indemnified Party that it does not dispute the claim described in such Indemnity Notice or fails to notify the Indemnified Party within the Indemnity Response Period whether the Indemnifying Party disputes the claim described in such Indemnity Notice, the actual Losses as finally determined will be conclusively deemed to be a liability of the Indemnifying Party under this Article IX and the Indemnifying Party shall pay the amount of such Losses to the Indemnified Party on demand. If the Indemnifying Party notifies the Indemnified Party within the Indemnity Response Period that the Indemnifying Party disputes its liability with respect to such claim, the Indemnifying Party and the Indemnified Party shall proceed in good faith to negotiate a resolution of such dispute, and if not resolved through negotiations within a period of thirty (30) days from the date of such notice, such dispute shall be resolved by arbitration at the request of either party in accordance with Section 9.4(c) hereof.

(c) RESOLUTION OF DISPUTES. Any dispute required to be submitted to arbitration pursuant to this Section 9.4 shall be finally and conclusively determined in accordance with the Commercial Arbitration Rules of the American Arbitration Association (the "RULES OF ARBITRATION") then in effect by the decision of one (1) arbitrator (the "BOARD OF ARBITRATION") selected in accordance with the Rules of Arbitration. The Arbitration shall be held in Coconut Grove, Florida and the arbitrator shall render its decision in writing with respect to and stating the amount, if any, which the Indemnifying Party is required to pay to the Indemnified Party in respect of the claim made by the Indemnified Party. To the extent practical, the decision of the arbitrator shall be rendered no more than thirty (30) days following commencement of proceedings with respect thereto. The arbitrator shall cause its written decision to be delivered to the Indemnified Party and the Indemnifying Party. Any decision made by the arbitrator (either prior to or after the expiration of such thirty (30) day period)

shall be final, binding and conclusive on the Indemnified Party and the Indemnifying Party and entitled to be enforced to the fullest extent permitted by law and entered in any court of competent jurisdiction.

ICP and A&C each hereby consent to the jurisdiction of the foregoing arbitrator and to the non-exclusive jurisdiction of any local, state or federal court located in either the State of Tennessee or the State of Florida for the purpose of enforcing the decision or award of the arbitrator or otherwise. ICP and A&C agree that all service of process may be made on any such party by personal delivery or by registered or certified mail addressed to the appropriate party at the address for such party set forth in Section 11.1 hereof.

All fees, costs and expenses of the Indemnified Party and the Indemnifying Party in relation to the arbitration, including, but not limited to, attorneys' fees shall be paid by such parties as determined by the arbitrator. Each and every arbitration proceeding commenced pursuant to this Section 9.4(c) shall be consolidated with any arbitration proceeding simultaneously or previously commenced under this Section 9.4(c).

SECTION 9.5 CONTINUED LIABILITY FOR INDEMNITY CLAIMS. The liability of any Indemnifying Party hereunder with respect to claims hereunder shall continue for so long as any claims for indemnification may be made hereunder pursuant to Section 9.7 hereof and, with respect to any such indemnification claims duly and timely made, thereafter until the Indemnifying Party's liability therefor is finally determined and satisfied.

SECTION 9.6 LIMITATIONS ON INDEMNIFICATION.

(a) CERTAIN TYPES OF DAMAGES. No Indemnifying Party shall be liable for special or consequential damages, other than those sought to be recovered against an Indemnified Party in a Third Party Claim.

(b) THRESHOLD AMOUNT. (i) No amount of indemnity shall be payable in the case of a claim by A&C under Section 9.2(a) or 9.2(c) unless, until and only to the extent that A&C and its Affiliates has suffered or incurred losses aggregating in excess of \$50,000 as a result of or arising out of the matters described in Section 9.2(a) and 9.2(c); and (ii) no amount of indemnity shall be payable in the case of a claim by A&C under Section 9.3(a) unless, until and only to the extent that ICP and its Affiliates has suffered or incurred losses aggregating in excess of \$50,000 as a result of or arising out of the matters described in Section 9.3(a).

SECTION 9.7 TIME LIMITS ON CLAIMS. Notwithstanding anything in this Agreement to the contrary, a claim by any

Indemnified Party under Section 9.2(a) or 9.3(a) may be made only within eighteen (18) months following the Closing Date with the exception of (a) Sections 3.7 and 3.19 with respect to which such representations and warranties shall survive and claims thereon may be made until the expiration of the applicable statute of limitation; (b) Section 3.22 with respect to which such representations and warranties shall survive and claims thereon may be made for five (5) years following the Closing Date and (c) representations and warranties regarding matters of title to the Shares and the Transferred Assets included in the various Sections of this Agreement with respect to which such representations and warranties shall survive and claims thereon may be made without any limitation as to time.

Notwithstanding anything in this Agreement to the contrary, any claim pursuant to Sections 9.2(a) or 9.3(a) not made within the foregoing relevant time period shall expire and be forever barred thereafter.

SECTION 9.8 SOURCES OF PAYMENT. To the extent any party hereto or any of its Affiliates is entitled to indemnification for Losses under this Article IX and such entitlement has either not been disputed by the other party hereto within the time periods established in this Article IX or any dispute related thereto has been resolved in favor of such party in accordance with this Article IX (and such resolution has become final and non-appealable), then such party or Affiliate may (but shall not be required to) set off such amounts against (and deduct them from) any amounts owing to the other party or any of its Affiliates under this Agreement or any Related Agreement but only with respect to any indemnification right which has been so resolved and become final and non-appealable. The foregoing right is in addition to any other rights that the parties may have for indemnification.

ARTICLE X TERMINATION

SECTION 10.1 GROUNDS FOR TERMINATION. Except as set forth in this Section 10.1, this Agreement may not be terminated at any time prior to Closing by either ICP or A&C; PROVIDED that ICP or A&C may terminate this Agreement, by written notice to other parties to this Agreement, if the Closing shall not have occurred prior to March 1, 1997, or such later date as may be approved by ICP and A&C. This Agreement may also be terminated at any time by an agreement in writing signed by ICP and A&C.

SECTION 10.2 EFFECT OF TERMINATION. If this Agreement is terminated pursuant to Section 10.1, such termination shall be without liability of any party, or any shareholder, director, officer, employee, agent, consultant or representative of such party, to any other parties to this Agreement; PROVIDED that if such termination shall result from the breach by a party of the representations, warranties or covenants of such party contained

in this Agreement, such party shall be liable for any and all Losses sustained or incurred by the other parties to this Agreement.

SECTION 10.3 TERMINATION FOR BREACH. Nothing in this Article X shall affect the rights which any party hereto might otherwise have to terminate this Agreement as a result of a breach hereof by any other party hereto.

ARTICLE XI
MISCELLANEOUS

SECTION 11.1 NOTICES. All notices, requests and other communications hereunder shall be in writing and will be deemed to have been duly given (a) when personally delivered, (b) when sent by telefax to a party at the number listed below for such party, (c) two (2) Business Days after the day on which the same has been delivered prepaid to a national courier service or (d) three (3) Business Days after the deposit in the United States mail, registered or certified, return receipt requested, postage prepaid, in each case addressed to the party to whom such notice is to be given at the following address for such party:

If to A&C:	A&C Distributors, Inc. 2665 South Bayshore Drive, Suite 901 Coconut Grove, Florida 33133 Attention: Barry S. Logan Telefax No.: (305) 858-4492
With a copy to:	Moore & Van Allen, PLLC NationsBank Corporate Center 100 North Tryon Street, Floor 47 Charlotte, North Carolina 28202 Attn: Aaron D. Cowell, Jr. Telefax No.: (704) 331-1159
If to ICP:	Inter-City Products Corporation (US) 650 Heil-Quaker Avenue Lewisburg, Tennessee 37091 Attention: David P. Cain Telefax No.: (615) 270-4220
With a copy to:	Tuke Yopp & Sweeney NationsBank Plaza, Suite 1100 414 Union Street Nashville, Tennessee 37219 Attention: Gary M. Brown Telefax No.: (615) 313-3310

Any party from time to time may change its address, telefax number or other information for the purpose of notices to that party by giving notice specifying such change to the other parties hereto.

SECTION 11.2 FEES AND EXPENSES. ICP and A&C shall each bear its own expenses in connection with the negotiation and preparation of this Agreement, all documents and instruments contemplated hereby, and the consummation of the transactions contemplated hereby, including without limitation the fees and expenses of their respective counsel, accountants, investment bankers, finders and consultants. ICP shall not permit or allow Coastline or CDS Holdings to bear or pay any such expenses or agree to bear or pay any such expenses except to the extent they are reflected on the Closing Date Balance Sheet.

SECTION 11.3 PUBLIC ANNOUNCEMENTS. Except as otherwise required by Law, neither ICP or A&C shall (and each shall cause its respective Affiliates and Representatives not to) issue any press release or make any other public announcement with respect to the transactions contemplated hereby without the approval of the other party, which approval shall not be unreasonably withheld or delayed.

SECTION 11.4 ENTIRE AGREEMENT. This Agreement supersedes all prior and contemporaneous discussions and all prior written agreements between the parties with respect to the subject matter hereof and contains the sole and entire agreement between the parties hereto with respect to the subject matter hereof.

SECTION 11.5 WAIVER; REMEDIES. Any term or condition of this Agreement may be waived at any time by the party that is entitled to the benefit thereof, but no such waiver shall be effective unless set forth in a written instrument duly executed by or on behalf of the party waiving such term or condition. No waiver by any party of any term or condition of this Agreement, in any one or more instances, shall be deemed to be or construed as a waiver of the same or any other term or condition of this Agreement on any future occasion. All remedies, either under this Agreement or by Law or otherwise afforded, will be cumulative and not alternative.

SECTION 11.6 AMENDMENT. This Agreement may be amended, supplemented or modified only by a written instrument duly executed by or on behalf of each party hereto.

SECTION 11.7 BENEFITS AND BINDING EFFECT. Neither this Agreement nor any right, interest or obligation hereunder may be assigned by any party hereto without the prior written consent of the other parties hereto and any attempt to do so will be void, provided that A&C may assign its rights hereunder for collateral security purposes to any lenders providing financing to A&C or any of its Affiliates. Subject to the preceding sentence, this Agreement is binding upon, inures to the benefit of and is enforceable by the parties hereto and their respective successors and permitted assigns.

SECTION 11.8 CAPTIONS; REFERENCES. The captions used in this Agreement (including the exhibits and schedules hereto) have been inserted for convenience of reference only and do not define

or limit the provisions hereof. Whenever required by the context, and as used in this Agreement, the singular number shall include the plural and pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identification the person may require. References to monetary amounts and specific named statutes and accepted accounting principles are intended to be and shall be construed as references to United States dollars, statutes of the United States of the stated name.

SECTION 11.9 EXHIBITS AND SCHEDULES. All exhibits and schedules referred to in this Agreement, all attachments to exhibits or schedules, and any other attachment to this Agreement are hereby incorporated by reference into this Agreement and hereby are made a part of this Agreement as if set out in full.

SECTION 11.10 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the Laws of the State of Tennessee applicable to a contract executed and performed in such State, without giving effect to the conflicts of laws principles thereof.

SECTION 11.11 COUNTERPARTS. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

SECTION 11.12 SEVERABILITY. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction, shall as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

SECTION 11.13 NO THIRD PARTY BENEFICIARY. This Agreement shall not confer any rights or remedies upon any Person or entity other than the parties hereto and their respective successors and permitted assigns.

SECTION 11.14 BULK SALES. ICP and A&C hereby waive compliance with the provisions of Article 6 of the Uniform Commercial Code, entitled "Uniform Commercial Code -- Bulk Transfers" and comparable Laws relating to bulk transfers as adopted in the various jurisdictions in which the Transferred Assets are located, to the extent applicable to the transactions contemplated hereby. ICP shall indemnify and hold harmless A&C from and against any and all Losses (without taking into account any of the limitations or conditions referred to in Article IX hereof) incurred or suffered by A&C or its Affiliates arising as a result of such waiver or noncompliance.

SECTION 11.15 SURVIVAL. Any provision of this Agreement which contemplates performance or the existence of obligations

after the Closing Date, and any and all representations and warranties set forth in this Agreement, shall not be deemed to be merged into or waived by the execution and delivery of the instruments executed at the Closing, but shall expressly survive Closing and shall be binding upon the party or parties obligated thereby in accordance with the terms of this Agreement, subject to any limitations expressly set forth in this Agreement.

SECTION 11.16 ATTORNEYS' FEES. In the event any suit or other legal proceeding is brought for the enforcement of any of the provisions of this Agreement, the parties hereto agree that the prevailing party or parties shall be entitled to recover from the other party or parties upon final judgment on the merits reasonable attorneys' fees (and sales taxes thereon, if any), including attorneys' fees for any appeal and costs incurred in bringing such suit or proceeding.

SECTION 11.17 RISK OF LOSS. Prior to the Closing, the risk of loss or damage to, or destruction of, or destruction of, any and all of the Transferred Assets or any of the assets of CDS Holdings or Coastline shall remain with ICP, and the legal doctrine known as the "Doctrine of Equitable Conversion" shall not be applicable to this Agreement or to any of the transactions contemplated hereby.

SECTION 11.18 SPECIFIC PERFORMANCE. Each of the parties hereto acknowledges that the rights of each other party to consummate the transactions contemplated by this Agreement are special, unique and of extraordinary character and that, in the event that a party violates or fails and refuses to perform any covenant or agreement made by it in this Agreement, then each other party may be without an adequate remedy at law. Each party agrees, therefore, that in the event it violates or fails and refuses to perform any covenant or agreement made by it in this Agreement, each other party may, in addition to any remedies hereunder for damages or other relief, institute and prosecute an action in any court of competent jurisdiction to enforce specific performance of such covenant or agreement or seek any other equitable relief.

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

INTER-CITY PRODUCTS CORPORATION (USA)

By: _____
Name: _____
Title: _____

A&C DISTRIBUTORS, INC.

By: _____
Name: _____
Title: _____

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

As independent certified public accountants, we hereby consent to the incorporation by reference in this registration statement of our reports dated March 29, 1996, included in (or incorporated by reference) in Watsco, Inc.'s Form 10-K for the year ended December 31, 1995 and to all references to our Firm included in this registration statement.

ARTHUR ANDERSEN LLP
Miami, Florida,

January 22, 1997.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in this registration statement on Form S-3 of Watsco, Inc. of our report on our audit of the financial statements of Three States Supply Company, Inc. dated February 5, 1996, except for the matter discussed in Note 8 as to which the date is April 12, 1996, included in Watsco, Inc.'s Form 8-K dated April 12, 1996. We also consent to the reference to our firm under the caption "Experts."

RHEA & IVY, P.L.C.

Memphis, Tennessee
January 22, 1997.