

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

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999

or

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

For the Transition Period From  
\_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5581

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

WATSCO, INC.  
(a Florida Corporation)  
2665 South Bayshore Drive, Suite 901

Coconut Grove, Florida 33133  
Telephone: (305) 714-4100

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date: 25,512,499 shares of the Company's Common Stock (\$.50 par value) and 3,193,692 shares of the Company's Class B Common Stock (\$.50 par value) were outstanding as of August 13, 1999.

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PART I. FINANCIAL INFORMATION  
WATSCO, INC. CONDENSED CONSOLIDATED BALANCE SHEETS  
June 30, 1999 and December 31, 1998  
(In thousands, except per share data)

	June 30, 1999	December 31, 1998
	-----	-----
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,140	\$ 6,689
Accounts receivable, net	182,185	137,745
Inventories	244,703	202,592
Other current assets	10,329	11,984
Net assets of discontinued operation	11,883	11,966
	-----	-----
Total current assets	456,240	370,976
Property, plant and equipment, net	31,029	30,496
Other assets	28,242	24,237
Intangible assets, net	117,494	106,309
	-----	-----
	\$ 633,005	\$ 532,018
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 1,000	\$ 1,007
Accounts payable	85,043	60,742
Accrued liabilities	27,846	19,488
	-----	-----
Total current liabilities	113,889	81,237
	-----	-----
Long-term obligations:		
Borrowings under revolving credit agreement	213,700	168,000
Bank and other debt	5,093	4,301

Total long-term obligations	218,793	172,301
Deferred income taxes and credits	2,679	3,912
	-----	-----
Shareholders' equity:		
Common Stock, \$.50 par value	12,756	12,420
Class B Common Stock, \$.50 par value	1,596	1,596
Paid-in capital	197,175	189,225
Unrealized gains (losses) on investments, net of tax	43	(2,962)
Unearned compensation related to outstanding restricted stock	(5,862)	(5,051)
Retained earnings	91,936	79,340
	-----	-----
Total shareholders' equity	297,644	274,568
	-----	-----
	\$ 633,005	\$ 532,018
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
Quarter and Six Months Ended  
June 30, 1999 and 1998  
(In thousands, except per share data)  
(Unaudited)

	Quarter Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Revenue	\$ 331,011	\$ 270,853	\$ 578,388	\$ 443,569
Cost of sales	253,862	210,879	443,052	343,194
Gross profit	77,149	59,974	135,336	100,375
Selling, general and administrative expenses	55,988	43,260	107,264	79,120
Operating income	21,161	16,714	28,072	21,255
Interest expense, net	3,387	2,714	6,567	4,436
Income from continuing operations before income taxes	17,774	14,000	21,505	16,819
Income taxes	6,601	5,180	7,989	6,223
Income from continuing operations	11,173	8,820	13,516	10,596
Loss on sale of discontinued operation, net of income taxes	--	(398)	--	(398)
Income (loss) from discontinued operations, net of income taxes	404	(440)	508	(291)
Net income	11,577	7,982	14,024	9,907
Basic earnings per share:				
Income from continuing operations	\$ 0.39	\$ 0.33	\$ 0.47	\$ 0.40
Loss on sale of discontinued operation	--	(0.01)	--	(0.02)
Income (loss) from discontinued operations	0.01	(0.02)	0.02	(0.01)
Net income	\$ 0.40	\$ 0.30	\$ 0.49	\$ 0.37
Diluted earnings per share:				
Income from continuing operations	\$ 0.38	\$ 0.31	\$ 0.46	\$ 0.38
Loss on sale of discontinued operation	--	(0.01)	--	(0.02)
Income (loss) from discontinued operations	0.01	(0.02)	0.02	(0.01)
Net income	\$ 0.39	\$ 0.28	\$ 0.48	\$ 0.35
Weighted average shares and equivalent shares used to calculate earnings per share:				
Basic	28,704	26,696	28,652	26,459
Diluted	29,580	28,346	29,554	28,053

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
Six Months Ended June 30, 1999 and 1998  
(In thousands)  
(Unaudited)

	1999	1998
Cash flows from operating activities:		
Income from continuing operations	\$ 13,516	\$ 10,596
Adjustments to reconcile income from continuing operations to net cash used in operating activities of continuing operations:		
Depreciation and amortization	5,132	4,492
Provision for doubtful accounts	1,862	1,252
Deferred income tax benefit	(33)	515
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(36,687)	(47,167)
Inventories	(35,298)	(20,099)
Accounts payable and accrued liabilities	27,314	31,281
Other, net	943	(2,414)
	(23,251)	(21,544)
Net cash used in operating activities of continuing operations	(23,251)	(21,544)
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	(18,009)	(6,163)
Capital expenditures, net	(3,240)	(5,713)
Purchases of marketable securities	(1,042)	--
	(22,291)	(11,876)
Net cash used in investing activities of continuing operations	(22,291)	(11,876)
Cash flows from financing activities:		
Net borrowings under revolving credit agreement	45,700	35,700
Borrowings (repayments) of bank and other debt	486	(710)
Net proceeds from issuances of common stock	644	1,060
Common stock dividends	(1,428)	(1,224)
	45,402	34,826
Net cash provided by financing activities of continuing operations	45,402	34,826
Net cash provided by (used in) discontinued operations	591	(2,548)
	451	(1,142)
Net increase (decrease) in cash and cash equivalents	451	(1,142)
Cash and cash equivalents at beginning of period	6,689	7,880
	\$ 7,140	\$ 6,738
Cash and cash equivalents at end of period	\$ 7,140	\$ 6,738

See accompanying notes to condensed consolidated financial statements.

WATSCO, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 1999  
(In thousands, except share data)  
(Unaudited)

1. The condensed consolidated balance sheet as of December 31, 1998, which has been derived from the Company's audited financial statements, and the unaudited interim condensed consolidated financial statements, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments necessary for a fair presentation have been included in the condensed consolidated financial statements herein.
2. The results of operations for the quarter and six month period ended June 30, 1999 are not necessarily indicative of the results for the year ending December 31, 1999. The sale of the Company's products is seasonal with revenue generally increasing during the months of May through August.
3. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
4. Basic earnings per share is computed by dividing net income by the total of the weighted shares outstanding. Diluted earnings per share additionally assumes any added dilution from common stock equivalents. Shares used to calculate earnings per share are as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Weighted average shares outstanding	28,703,641	26,695,515	28,652,176	26,459,065
Dilutive stock options	876,074	1,650,582	901,806	1,593,453
Shares for diluted earnings per share	29,579,715	28,346,097	29,553,982	28,052,518
Options outstanding which are not included in the calculation of diluted earnings per share because their impact is antidilutive	291,025	29,063	676,513	87,938

Shares used to calculate earnings per share for the quarter and the six months ended June 30, 1998 have been restated to include the effect of a 3-for-2 stock split paid on August 14, 1998 to shareholders of record as of July 31, 1998.

5. In 1998, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in the financial statements. The components of the Company's comprehensive income are as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Net income	\$11,577	\$ 7,982	\$14,024	\$ 9,907
Unrealized gain on investments, net of tax	3,612	879	3,005	879
Comprehensive income	\$15,189	\$ 8,861	\$17,029	\$10,786

6. Discontinued operations include a personnel staffing business, Dunhill Staffing Systems, Inc., and, until May 1998, a manufacturing operation, Watsco Components, Inc. ("Components"). In May 1998, the Company sold substantially all the operating assets of Components. Summarized results for the discontinued operations are as follows:

	Quarter Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
Revenue	\$ 15,113	\$ 16,104	\$ 28,119	\$ 32,522
Income (loss) before income taxes	\$ 660	\$ (698)	\$ 826	\$ (462)
Income tax (expense) benefit	(256)	258	(318)	171
Income (loss) from discontinued operations	\$ 404	\$ (440)	\$ 508	\$ (291)

7. During January 1999, the Company completed the acquisitions of two wholesale distributors of air conditioning and heating products. The acquisitions were made either in the form of the purchase of the outstanding common stock or the purchase of the net assets and business of the respective sellers. Aggregate consideration for these acquisitions consisted of cash payments of \$18,009 including the repayment of debt totaling \$4,592 and the issuance of 507,224 shares of Common Stock having a fair value of \$6,433 and is subject to adjustment upon the completion of audits of the assets purchased and the liabilities assumed.

Acquisitions have been accounted for under the purchase method of accounting and, accordingly, their results of operations have been included in the unaudited condensed consolidated statement of income beginning on their respective dates of acquisition. The excess of the aggregate purchase prices over the net assets acquired of \$12,279 is being amortized on a straight-line basis over 40 years.

The Company's unaudited pro forma consolidated results of operations assuming all significant acquisitions occurred on January 1, 1998 are as follows:

	Quarter Ended June 30, 1998	Six Months Ended June 30, 1998
Revenue	\$319,416	\$537,391
Income from continuing operations	\$ 10,059	\$ 11,489
Diluted earnings per share from continuing operations	\$ 0.34	\$ 0.39

The unaudited pro forma consolidated results of operations is not necessarily indicative of either the results of operations that would have occurred had the above companies been acquired on January 1, 1998 for the periods presented or of future results of operations.

8. In March 1998, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants ("AcSEC") issued Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." SOP 98-1 establishes criteria for determining which costs of developing or obtaining internal-use computer software should be charged to expense and which should be capitalized. The Company adopted SOP 98-1 on January 1, 1999. The adoption of SOP 98-1 was not material to the Company's consolidated financial position or results of operations.

In April 1998, the AcSEC issued SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 establishes standards for the reporting and disclosure of start-up costs, including organization costs. The Company adopted SOP 98-5 on January 1, 1999. Adoption of SOP 98-5 was not material to the Company's consolidated financial position or results of operations.

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," which is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 also requires that changes in derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met. The impact of SFAS No. 133 on the Company's consolidated financial statements will depend on a variety of factors, including future interpretive guidance from the FASB, the extent of the Company's hedging activities, the type of hedging instruments used and the effectiveness of such instruments. The Company has not quantified the impact of adopting SFAS No. 133.

In June 1999, the FASB issued SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No.133--an amendment of FASB Statement No. 133," which delayed the implementation date for SFAS 133 for one year to fiscal years beginning after June 15, 2000.

9. In June 1999, the Company executed an amended and restated bank-syndicated credit agreement, which provides for borrowings up to \$315 million, expiring on August 8, 2002. The unsecured agreement will be used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions. Borrowings under the revolving credit agreement bear interest at primarily LIBOR based rates plus a spread that is dependent upon the Company's financial performance (LIBOR plus .7% at June 30, 1999). The 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.

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

RESULTS OF OPERATIONS

The following table presents the Company's consolidated financial results from continuing operations for the quarter and six months ended June 30, 1999 and 1998, expressed as a percentage of revenue:

	Quarter		Six Months	
	Ended June 30,		Ended June 30,	
	1999	1998	1999	1998
Revenue	100.0%	100.0%	100.0%	100.0%
Cost of sales	76.7	77.9	76.6	77.4
Gross profit	23.3	22.1	23.4	22.6
Selling, general and administrative expenses	16.9	15.9	18.5	17.8
Operating income	6.4	6.2	4.9	4.8
Interest expense, net	1.0	1.0	1.2	1.0
Income taxes	2.0	1.9	1.4	1.4
Income from continuing operations	3.4%	3.3%	2.3%	2.4%

The above table and the following narrative includes the results of operations of wholesale distributors of air conditioning, heating and refrigeration equipment and related parts and supplies acquired during 1999 and 1998. These acquisitions were accounted for under the purchase method of accounting and, accordingly, their results of operations have been included in the consolidated results of the Company beginning on their respective dates of acquisition. Data presented in the following narratives referring to "same store basis" excludes the effects of operations acquired or locations opened during the prior twelve months.

QUARTER ENDED JUNE 30, 1999 VS. QUARTER ENDED JUNE 30, 1998

Revenue for the three months ended June 30, 1999 increased \$60.2 million, or 22%, compared to the same period in 1998. Excluding the effect of acquisitions, revenue increased \$7.5 million, or 3%. Such increase was primarily due to additional sales generated by expanded product lines of parts and supplies.

Gross profit for the three months ended June 30, 1999 increased \$17.2 million, or 29%, as compared to the same period in 1998, primarily as a result of the aforementioned revenue increases. Excluding the effect of acquisitions, gross profit increased \$4.2 million, or 7%. Gross profit margin in the second quarter increased to 23.3% in 1999 from 22.1% in 1998. Excluding the effect of acquisitions, gross profit margin increased to 23.1% in 1999 from 22.1% in 1998. Increases in gross profit margin on a same store basis are primarily attributable to improved pricing disciplines, enhanced focus on margins at certain subsidiaries of the Company and contribution from expanded vendor programs.

Selling, general and administrative expenses for the three months ended June 30, 1999 increased \$12.7 million, or 29%, compared to the same period in 1998, primarily due to higher selling and delivery costs related to acquired companies and increased sales. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$3.0 million, or 7%, primarily due to revenue increases, higher costs related to new locations and the expansion of existing locations. Selling, general and administrative expenses as a percent of revenue increased to 16.9% in 1999 from 15.9% in 1998, primarily due to the higher cost structures of acquired companies and startup costs related to the opening of new distribution locations. Excluding the effect of acquisitions, selling, general and administrative expenses as a percent of revenue increased to 16.6% in 1999 from 15.9% in 1998.



Interest expense, net for the second quarter in 1999 increased approximately \$0.7 million, or 25%, compared to the same period in 1998, primarily due to higher average borrowings incurred from acquisitions completed in the first quarter of 1999.

The effective tax rate for the three months ended June 30, 1999 was 37.2% compared to 37.0% for the same period in 1998. This increase was primarily due to higher state income taxes resulting from acquisitions.

#### SIX MONTHS ENDED JUNE 30, 1999 VS. SIX MONTHS ENDED JUNE 30, 1998

Revenue for the six months ended June 30, 1999 increased \$134.8 million, or 30%, compared to the same period in 1998. Excluding the effect of acquisitions, revenue increased \$26.0 million, or 6%. Such increase was primarily due to additional sales generated from market share gains and increased sales generated by expanded product lines of parts and supplies.

Gross profit for the six months ended June 30, 1999 increased \$35.0 million, or 35%, as compared to the same period in 1998, primarily as a result of the aforementioned revenue increases. Excluding the effect of acquisitions, gross profit increased \$8.6 million, or 9%. Gross profit margin for the six month period increased to 23.4% in 1999 from 22.6% in 1998. Excluding the effect of acquisitions, gross profit margin increased to 23.2% in 1999 from 22.6% in 1998. Increases in gross profit margin on a same store basis are attributable to improved pricing disciplines, enhanced focus on margins at certain subsidiaries of the Company and contribution from expanded vendor programs.

Selling, general and administrative expenses for the six months ended June 30, 1999 increased \$28.1 million, or 36%, compared to the same period in 1998, primarily due to higher selling and delivery costs related to acquired companies and increased sales. Excluding the effect of acquisitions, selling, general and administrative expenses increased \$6.4 million, or 8%, primarily due to revenue increases, higher costs related to new locations and the expansion of existing locations. Selling, general and administrative expenses as a percent of revenue increased to 18.5% in 1999 from 17.8% in 1998, primarily due to the higher cost structures of acquired companies and startup costs related to the opening of new distribution locations. Excluding the effect of acquisitions, selling, general and administrative expenses as a percent of revenue increased to 18.2% in 1999 from 17.8% in 1998.

Interest expense, net for the six months ended June 30, 1999 increased approximately \$2.1 million, or 48%, compared to the same period in 1998, primarily due to higher average borrowings that were used to complete business acquisitions.

The effective tax rate for the six months ended June 30, 1999 was 37.2% compared to 37.0% for the same period in 1998. This increase was primarily due to higher state income taxes resulting from acquisitions completed in the first quarter of 1999.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company maintains a bank-syndicated revolving credit agreement that provides for borrowings of up to \$315 million, expiring on August 8, 2002. Borrowings under the unsecured agreement are used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions. Borrowings under the agreement, which totaled \$213.7 million at June 30, 1999, bear interest at primarily LIBOR-based rates plus a spread that is dependent upon the Company's financial performance (LIBOR plus .7% at June 30, 1999). The 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.

Working capital increased to \$342.4 million at June 30, 1999 from \$289.7 million at December 31, 1998. This increase was funded primarily by borrowings under the Company's revolving credit agreement.

Cash and cash equivalents increased \$.5 million during the six month period ended June 30, 1999. Principal sources of cash during the quarter were borrowings under the revolving credit agreement. The principal uses of cash were to fund working capital needs and finance acquisitions and capital expenditures.

The Company has adequate availability of capital to fund present operations and anticipated growth, including expansion in its current and targeted market areas. The Company continually evaluates potential acquisitions and has held discussions with a number of acquisition candidates. During July 1999, the Company executed a letter of intent to acquire a distributor of air conditioning equipment based in Texas; however, the Company currently has no binding agreement with respect to this or any other acquisition candidates. Should suitable acquisition opportunities or working capital needs arise that would require additional financing, the Company believes that its financial position and earnings history provide a solid base for obtaining additional financing resources at competitive rates and terms.

#### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's primary market risk exposure consists of interest rate risk. The Company's objective in managing the exposure to interest rate changes is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company uses interest rate swaps to manage net exposure to interest rate changes to its borrowings. The Company continuously monitors developments in the capital markets and has only entered into swaps with a group of financial institutions with investment grade credit ratings, thereby minimizing the risk of credit loss. All items described below are non-trading.

At June 30, 1999, the Company had various interest rate swap agreements with an aggregate notional amount of \$100 million to manage its net exposure to interest rate changes related to a portion of the borrowings under the revolving credit agreement. The interest rate swap agreements effectively convert a portion of the Company's LIBOR-based variable rate borrowings into fixed rate borrowings with a weighted average pay rate of 6.3%.

#### YEAR 2000

Many computer systems in use in the world today may be unable to correctly process data or may not operate at all after December 31, 1999 because those systems recognize the year within a date only by the last two digits. Some computer programs may interpret the year "00" as 1900, instead of as 2000, causing errors in calculations, or the value "00" may be considered invalid by the computer program causing the system to fail. The Year 2000 issue affects (1) information technology utilized by the Company ("IT systems"); (2) other systems utilized by the Company ("Non-IT systems"), such as communications, facilities management and service equipment containing embedded computer chips; and (3) systems of key business partners (primarily the Company's customers and suppliers).

Watsco, Inc. and its subsidiaries could be adversely affected if Year 2000 issues are not resolved by the Company or its significant business partners before the Year 2000. Possible adverse consequences include, but are not limited to: (1) the inability to obtain products or services used in the business operations, (2) the inability to transact business with key customers or suppliers, or (3) the inability to deliver goods or services sold to customers.

The Company's activities to manage the Year 2000 issue with respect to its systems can be segregated into four phases. Phase I and II consisted of identifying the systems that are non-compliant and formulating strategies to remedy the problems identified. Phase III consisted of executing the changes necessary through purchasing new or modifying existing systems. As of July 30, 1999, the Company and its subsidiaries have completed Phase I, II and III. Phase IV consists of testing the changes made to ascertain compliance. The Company's operating subsidiaries are currently testing their IT systems for compliance or have completed testing and are currently Year 2000 compliant. The Company's operating subsidiaries currently in Phase IV expect testing for Year 2000 compliance to be completed by August 31, 1999. Non-IT systems of most of the Company's operating subsidiaries are Year 2000 compliant.

The Company has contacted a large number of its business partners to obtain information regarding their progress on Year 2000 issues. While such entities have not fully completed their own Year 2000 projects, the Company is not aware of any significant business partners whose Year 2000 issues will not be resolved in a timely manner. However, there can be no assurance that significant Year 2000 related problems will not ultimately arise with such business partners.

Based on the Company's assessment to date, management estimates the implementation costs related to the identification, remediation and testing of the Year 2000 issue to be approximately \$1.1 million, of which \$.8 million has been expended through June 30, 1999. However, this estimate could change as the Company's activities to address the Year 2000 issue progress.

The Company believes that effective contingency plans can be developed given that the Company is not reliant on a single enterprise-wide computer system. The Company presently operates through a diverse group of 16 operating subsidiaries that maintain independently managed computer systems, substantially all of which have been purchased from and are supported by third parties. The Company's contingency planning includes the identification of back-up systems among the Company's operating subsidiaries in the event one or more operating systems fail to operate following the Year 2000. The Company continues to evaluate contingency plans to mitigate business risks in the event remediation efforts are unsuccessful.

While management believes that it has undertaken reasonable steps to address the Year 2000 issue, there can be no assurance that a failure to convert the Company's systems or the inability of its key business partners to adequately address the Year 2000 issue would not have a material adverse impact on the Company.

#### SAFE HARBOR STATEMENT

This quarterly report contains statements which, to the extent they are not historical fact, constitute "forward looking statements" under the securities laws. All forward looking statements involve risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Company to differ materially from those contemplated or projected, forecasted, estimated, budgeted, expressed or implied by or in such forward looking statements. The forward looking statements in this document are intended to be subject to the safe harbor protection provided under the securities laws.

For additional information identifying some other important factors which may affect the Company's operations and markets and could cause actual results to vary materially from those anticipated in the forward looking statements, see the Company's Securities and Exchange Commission filings, including but not limited to, the discussion included in the Business section of the Company's Form 10-K under the heading "Other Information".

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

There have been no significant changes from the information reported in the Annual Report on Form 10-K for the period ended December 31, 1998, filed on March 31, 1999.

Item 2. Changes in the Rights of the Company's Security Holders

None

Item 3. Defaults by the Company on its Senior Securities

None

Item 4. Results of Votes of Securities Holders

(a) The Company's 1999 Annual Meeting of Shareholders was held on June 3, 1999.

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

	FOR -----	WITHHELD -----
COMMON STOCK -----		
Cesar L. Alvarez	15,956,173	570,519
Paul F. Manley	15,958,061	568,631
CLASS B COMMON STOCK -----		
Albert H. Nahmad	27,857,690	11,000
Ira Harris	27,856,520	12,170

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

- (1) To ratify the action of the Board of Directors amending the Company's Second Amended and Restated 1991 Stock Option Plan and
- (2) To ratify the reappointment of Arthur Andersen LLP as the Company's independent certified public accountants for the year ended December 31, 1999.

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

PROPOSAL 1 -----	
For	32,377,951
Against	3,500,854
Withheld	151,162
Non-Vote	8,365,415
PROPOSAL 2 -----	
For	43,596,519
Against	464,427
Withheld	334,436
Non-Vote	-

As of April 9, 1999, the record date for the Annual Meeting of Shareholders, the total number of shares of the Company's Common Stock, \$.50 par value, and Class B Common Stock, \$.50 par value, outstanding was 25,417,739 and 3,204,126, respectively, representing 57,458,999 combined votes.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.10 Amendment Agreement No. 2 to Amended and Restated Revolving Credit and Reimbursement Agreement dated June 30, 1999, by and among Watsco Inc., the Lenders and NationsBank, National Association, as Agent.

27. Financial Data Schedule (for SEC use only)

(b) Reports on Form 8-K

None

SIGNATURES

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

WATSCO, INC.  
(Registrant)

By: /S/ BARRY S. LOGAN  
Barry S. Logan  
Vice President and Secretary  
(Chief Financial Officer)

August 13, 1999

EXHIBIT INDEX

Exhibit	Description
- - - - -	- - - - -
10.10	Amendment Agreement No. 2 to Amended and Restated Revolving Credit and Reimbursement Agreement dated June 30, 1999, by and among Watsco Inc., the Lenders and NatikonsBank, National Association, as Agent.
27	Financial Data Schedule

AMENDMENT AGREEMENT NO. 2  
TO AMENDED AND RESTATED  
REVOLVING CREDIT AND REIMBURSEMENT AGREEMENT

THIS AMENDMENT AGREEMENT NO. 2 TO AMENDED AND RESTATED REVOLVING CREDIT AND REIMBURSEMENT AGREEMENT (this "Amendment Agreement") is made and entered into as of this 30th day of June, 1999, by and among WATSCO, INC., a Florida corporation (the "Borrower"), the Lenders signatory hereto (the "Lenders") and NATIONSBANK, NATIONAL ASSOCIATION, a national banking association and successor to NationsBank, National Association (South), as Agent (the "Agent") for the Lenders party to the Credit Agreement described below.

W I T N E S S E T H:

WHEREAS, the Borrower, the Agent and the Lenders have entered into an Amended and Restated Revolving Credit Agreement dated August 8, 1997, as amended by Amendment Agreement No. 1 dated February 20, 1998 (the "Credit Agreement") pursuant to which the Lenders have agreed to make available to the Borrower a revolving credit facility of up to \$260,000,000; and

WHEREAS, as a condition to the making of loans the Lenders have required that each Subsidiary of Borrower execute a Facility Guaranty whereby it guarantees payment of the Obligations arising under the Credit Agreement; and

WHEREAS, the Borrower has requested that the Lenders increase the amount of the revolving credit facility to \$315,000,000 and provide for a competitive bid facility and the Agent and the Lenders have agreed, subject to the terms and conditions of this Agreement, to amend the Credit Agreement in order to effect such increase and competitive bid facility;

NOW, THEREFORE, in consideration of the mutual covenants, promises and conditions herein set forth, it is hereby agreed as follows:

1. DEFINITIONS. The term "Credit Agreement" as used herein and in the Loan Documents shall mean that certain Amended and Restated Revolving Credit and Reimbursement Agreement dated as of August 8, 1997 by and among the Agent, the Lenders and the Borrower, as heretofore and hereby amended and as from time to time further amended or modified. Unless the context otherwise requires, all capitalized terms used herein without definition shall have the respective meanings provided therefor in the Credit Agreement.

2. AMENDMENTS. Subject to the conditions set forth herein, the Credit Agreement shall be and hereby is amended, effective as of the date hereof, as follows:

(a) The preamble to the Agreement is hereby amended by deleting the figure "\$260,000,000" appearing in the third "WHEREAS" paragraph and inserting in lieu thereof the figure "\$315,000,000".

(b) The following new definitions are hereby added to SECTION 1.2 in their appropriate alphabetical order:

"Absolute Rate" has the meaning assigned to such term in SECTION 2.2(C)(II)(C) hereof.

"Competitive Bid Borrowing" has the meaning assigned to such term in SECTION 2.2 hereof.

"Competitive Bid Facility" means the facility described in SECTION 2.2 hereof providing for Competitive Bid Loans to the Borrower.

"Competitive Bid Loan Commitment" means the amount which a Lender has offered to loan to the Borrower pursuant to a Competitive Bid Quote by such Lender, the sum of all Competitive Bid Loans not to exceed in the aggregate one hundred percent (100%) of the Total Revolving Credit Commitment.

"Competitive Bid Loans" means the Loans bearing interest at an Absolute Rate or a Eurodollar Competitive Rate provided for in SECTION 2.2 hereof.

"Competitive Bid Notes" means, collectively, the promissory notes of the Borrower with respect to Competitive Bid Loans provided for by SECTION 2.2 hereof executed and delivered to the Lenders as provided in SECTION 2.6(C) substantially in the form attached hereto as EXHIBIT F-3 and incorporated herein by reference, with appropriate insertions as to dates and names of Lenders, and all promissory notes delivered in substitution or exchange therefor, in each case as the same shall be amended, modified or supplemented and in effect from time to time.

"Competitive Bid Quote" means an offer in accordance



with SECTION 2.2 hereof by a Lender to make a Competitive Bid Loan with one single specified interest rate.

"Competitive Bid Quote Request" has the meaning assigned to such term in SECTION 2.2 hereof.

"Eurodollar Competitive Rate" means, for the Interest Period for any Competitive Bid Loan at a Eurodollar Competitive Rate, the rate of interest per annum determined pursuant to the following formula:

$$\begin{array}{l} \text{Eurodollar} \\ \text{-----} \\ \text{Competitive} \\ \text{Rate} \end{array} = \begin{array}{l} \text{Interbank Offered Rate} \\ \text{-----} \\ \text{1-Eurodollar Reserve} \\ \text{Percentage} \end{array} \quad \text{+or -a margin}$$

"Quotation Date" has the meaning assigned to such term in SECTION 2.2 hereof.

"Swing Line Note" means the promissory note of the Borrower evidencing Swing Line Loans executed and delivered to NationsBank as provided in SECTION 2.6(B) hereof substantially in the form attached hereto as EXHIBIT F-2, with appropriate insertions as to amounts, dates and names;

(c) The following terms defined in SECTION 1.2 are hereby amended in their entirety so that as amended they read as follows:

"Advance" means a borrowing under (i) the Revolving Credit Facility, consisting of the aggregate principal amount of a Base Rate Loan or a Eurodollar Loan, as the case may be or (ii) the Swing Line consisting of Base Rate Loans or bearing interest at a rate mutually agreed upon by NationsBank and the Borrower, or (iii) the Competitive Bid Facility consisting of Competitive Bid Loans.

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

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

"Eurodollar Reserve Percentage" means, for any day, that percentage (expressed as a decimal) which is in effect from time to time under Regulation D or any successor regulation, as the maximum reserve requirement (including, without limitation, any basic, supplemental, emergency, special, or marginal reserves) applicable with respect to Eurocurrency liabilities as that term is defined in Regulation D (or against any other category of liabilities that includes deposits by reference to which the interest rate of Eurodollar Rate Loans or Competitive Bid Loans at the

Eurodollar Competitive Rate is determined), whether or not any Lender has any Eurocurrency liabilities subject to such requirements without benefits of credits or proration, exceptions or offsets that may be available from time to time to any Lender. The Eurodollar Rate and the Eurodollar Competitive Rate shall be adjusted automatically on and as of the effective date of any change in the Eurodollar Reserve Percentage.

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

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

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

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

month, in which case such Interest Period shall end on the next preceding Business Day); and

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

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

(v) on any day, with respect to all Revolving Credit Loans and Competitive Bid Loans, there shall not be in effect (x) more than ten (10) Interest Periods;

(b) for each Competitive Bid Loan at an Absolute Rate means the period commencing on the date of such Loan and ending on such date as may be mutually agreed upon by the Borrower and the Lender or Lenders making such Competitive Bid Loan or Loans, as the case may be, comprising such Competitive Bid Loan; PROVIDED that no Interest Period for a Competitive Bid Loan at an Absolute Rate shall be for a period of greater than 120 days;

(c) for each Competitive Bid Loan at a Eurodollar Competitive Rate means the period commencing on the date such Competitive Bid Loan is made and ending, at the Borrowers' option, on the date one week or on the date one, two, three or six months thereafter as notified by the Borrowers to such Lender by the Authorized Representative three (3) Business Days prior to the beginning of such Interest Period PROVIDED that if an Interest Period for such Loan would end on a day which is not a Business Day, such Interest Period shall be extended to the next Business Day (unless such extension would cause the applicable Interest Period to end in the succeeding calendar month, in which case such Interest Period shall end in the next preceding Business Day).

"Loan" or "Loans" means any of the Revolving Credit Loans or Swing Line Loans or Competitive Bid Loans

"Notes" means, collectively, the Revolving Credit Notes, the Swing Line Note and the Competitive Bid Notes which are to be delivered to the Lenders.

"Outstanding" means, collectively, the Letter of Credit Outstandings, Swing Line Outstandings, Revolving Credit Outstandings and outstanding Competitive Bid Loans, all as at the date of determination thereof.

"Required Lenders" means, as of any date, Lenders on such date having Credit Exposures (as defined below) aggregating at least 66 % of the aggregate Credit Exposures of all the Lenders on such date. For purposes of

the preceding sentence, the amount of the "CREDIT EXPOSURE" of each Lender shall be equal at all times to its Revolving Credit Commitment; provided that, if any Lender shall have failed to pay (x) to NationsBank its Applicable Commitment Percentage of any Swing Line Loan or (y) to NationsBank its Applicable Commitment Percentage of any drawing under any Letter of Credit resulting in an outstanding Reimbursement Obligation, such Lender's Credit Exposure attributable to Swing Line Loans shall be deemed to be held by NationsBank for purposes of this definition, and such Lender's Credit exposure attributable to Letters of Credit, Reimbursement Obligations and the Letter of Credit Commitment shall be deemed to be held by the Issuing Bank for purposes of this definition;

"Revolving Credit Facility" means the facility described in SECTION 2.1(A) hereof providing for Loans to the Borrower by the Lenders in the aggregate principal amount of the Total Revolving Credit Commitment less the aggregate amount of Swing Line Outstandings and Outstanding Letters of Credit and outstanding Competitive Bid Loans.

"Revolving Credit Termination Date" means (i) the Stated Termination Date or (ii) such earlier date of termination of Lenders' obligations pursuant to SECTION 9.1 upon the occurrence of an Event of Default, or (iii) such date as the Borrowers may voluntarily permanently terminate the Revolving Credit Facility and the Competitive Bid Facility by payment in full of all Obligations (including the discharge of all Obligations of NationsBank, the Issuing Banks and the Lenders with respect to Letters of Credit, Participations and Competitive Bid Loans).

"Total Revolving Credit Commitment" means a principal amount equal to \$315,000,000 as reduced from time to time in accordance with SECTION 2.8.

(d) Article II is hereby amended by (i) renumbering Section 2.7 and Section 2.8 to be Section 2.8 and Section 2.9, respectively, (ii) deleting Sections 2.2 through 2.6 and (iii) adding the following Sections 2.2 through 2.7 all of which shall read as follows:

## 2.2 COMPETITIVE BID LOANS.

(a) In addition to Revolving Loans, at any time prior to the Revolving Credit Termination Date and provided no Default or Event of Default exists hereunder, the Borrower may, as set forth in this SECTION 2.2, request the Lenders to make offers to make Competitive Bid Loans to the Borrower in Dollars. The Lenders may, but shall have no obligation to, make such offers and the Borrower may, but shall have no obligation to, accept any such offers in the manner set forth in this SECTION 2.2. There may be no more than ten (10) different Interest Periods for both Revolving Loans and Competitive Bid Loans outstanding at the same time (for which purpose Interest Periods for each Eurodollar Rate Loan and each Competitive Bid Loan shall be deemed to be different Interest Periods even if they are coterminous). The

aggregate principal amount of all Outstandings, shall not exceed the Total Revolving Credit Commitment at any time. The aggregate principal amount of all outstanding Competitive Bid Loans shall not exceed one hundred percent (100%) of the Total Revolving Credit Commitment at any time.

(b) When the Borrower wishes to request offers to make Competitive Bid Loans, it shall give the Agent and the Lenders notice (a "Competitive Bid Quote Request") to be received no later than 11:00 a.m. on (A) the fourth Business Day prior to the date of borrowing proposed therein, in the case of a Competitive Bid Quote Request for Competitive Bid Loans at the Eurodollar Competitive Rate or (B) the Business Day prior to the date of borrowing proposed therein, in the case of a Competitive Bid Quote Request for Competitive Bid Loans at the Absolute Rate (or, in any such case, such other time and date as the Borrower and the Agent, with the consent of the Required Lenders, may agree). The Borrower may request offers to make Competitive Bid Loans for up to five (5) different Interest Periods in a single notice; PROVIDED that the request for each separate Interest Period shall be deemed to be a separate Competitive Bid Quote Request for a separate borrowing (a "Competitive Bid Borrowing") and there shall not be outstanding at any one time more than six (6) Competitive Bid Borrowings. Each such Competitive Bid Quote Request shall be substantially in the form of EXHIBIT J attached hereto and shall specify as to each Competitive Bid Borrowing:

(i) the proposed date of such borrowing, which shall be a Business Day;

(ii) the aggregate amount of such Competitive Bid Borrowing, which shall be at least \$5,000,000 (or in increments of \$1,000,000 in excess thereof) but shall not cause the limits specified in SECTION 2.2(A) hereof to be violated;

(iii) the duration of the Interest Period applicable thereto;

(iv) whether the Competitive Bid Quote Request for a particular Interest Period is seeking quotes for Competitive Bid Loans at the Absolute Rate or the Eurodollar Competitive Rate;

(v) whether the Borrower shall have the right to prepay a requested Competitive Bid Loan; and

(vi) the date on which the Competitive Bid Quotes are to be submitted if it is before the proposed date of borrowing (the date on which such Competitive Bid Quotes are to be submitted is called the "Quotation Date").

Except as otherwise provided in this SECTION 2.2(B), no more than one (1) Competitive Bid Quote Requests shall be given within seven (7) Business Days (or such other number of days as the Borrowers and the Administrative Agent, with the consent of the Required Lenders, may agree) of any other Competitive Bid Quote Request.

(c) (i) Each Lender may submit one or more Competitive Bid Quotes, each containing an offer to make a Competitive Bid Loan in response to any Competitive Bid Quote Request; PROVIDED that, if the Borrower's request under SECTION 2.2(B) hereof specified more than one Interest Period, such Lender may make a single submission containing one or more Competitive Bid Quotes for each such Interest Period. Each Competitive Bid Quote must be submitted to the Borrower not later than 9:30 a.m. on (A) the third Business Day prior to the proposed date of borrowing, in the case of a Competitive Bid Quote Request for Competitive Bid Loans at the Eurodollar Competitive Rate or (B) the Quotation Date, in the case of a Competitive Bid Quote Request for Competitive Bid Loans at the Absolute Rate (or, in any such case, such other time and date as the Borrower and the Agent, with the consent of the Required Lenders, may agree) PROVIDED that if NationsBank is receiving quotes as provided in SECTION 2.2(G), any Competitive Bid Quote may be submitted by NationsBank (or its applicable Lending Office) only if NationsBank (or such applicable Lending Office) notifies the Borrower of the terms of the offer contained therein not later than 9:15 a.m. on the Quotation Date. Subject to ARTICLES IV, V AND IX hereof, any Competitive Bid Quote so made shall be irrevocable except with the consent of the Agent given on the instructions of the Borrower.

(ii) Each Competitive Bid Quote shall be substantially in the form of EXHIBIT K attached hereto and shall specify:

(A) the proposed date of borrowing and the Interest Period therefor;

(B) the principal amount of the Competitive Bid Loan for which each such offer is being made, which principal amount shall be at least \$5,000,000 (or in increments of \$1,000,000 in excess thereof); PROVIDED that the aggregate principal amount of all Competitive Bid Loans for which a Lender submits Competitive Bid Quotes may not exceed the principal amount of the Competitive Bid Borrowing for a particular Interest Period for which offers were requested;

(C) in the case of a Competitive Bid Quote for Competitive Bid Loans at an Absolute Rate, the rate of interest per annum (rounded upwards, if necessary, to the nearest 1/10,000th of 1%) offered for each such Competitive Bid Loan (the "ABSOLUTE RATE");

(D) in the case of a Competitive Bid Quote for Competitive Bid Loans at the Eurodollar Competitive Rate, the positive or negative margin to be added to or deducted from the Interbank Offered Rate; and

(E) the identity of the quoting Lender.

Unless otherwise agreed by the Agent and the Borrower, no Competitive Bid Quote shall contain qualifying, conditional or similar language or propose terms other than

or in addition to those set forth in the applicable Competitive Bid Quote Request and, in particular, no Competitive Bid Quote may be conditioned upon acceptance by the Borrower of all (or some specified minimum) of the principal amount of the Competitive Bid Loan for which such Competitive Bid Quote is being made. Any subsequent Competitive Bid Quote submitted by a Lender that amends, modifies or is otherwise inconsistent with a previous Competitive Bid Quote submitted by such Lender with respect to the same Competitive Bid Quote Request shall be disregarded by the Borrower unless such subsequent Competitive Bid Quote is submitted solely to correct a manifest error in such former Competitive Bid Quote.

(d) The Borrower shall (A) in the case of a Competitive Bid Loan at an Absolute Rate, as promptly as practicable after the Competitive Bid Quote is submitted (but in any event not later than 10:30 a.m. on the Quotation Date (or such other time and date as the Borrower and the Agent, with the consent of the Required Lenders, may agree)) or (B) in the case of a Competitive Bid Loan at a Eurodollar Competitive Rate, the third Business Day prior to the proposed date of borrowing, notify the Agent and Lenders of (A) the aggregate principal amount of the Competitive Bid Borrowing for which Competitive Bid Quotes have been received as well as the ranges of bids submitted for each Interest Period requested, (B) the respective principal amounts and Absolute Rates or Eurodollar Competitive Rates, as the case may be, so offered by each Lender (identifying the Lender that made each Competitive Bid Quote), and (C) its acceptance or nonacceptance of the Competitive Bid Quotes. In the case of acceptance, such notice shall specify the aggregate principal amount of offers for each Interest Period that are accepted. The Borrower may accept any Competitive Bid Quote in whole or in part (PROVIDED that any Competitive Bid Quote accepted in part shall be at least \$5,000,000 or in increments of \$1,000,000 in excess thereof); PROVIDED that:

(i) the aggregate principal amount of each Competitive Bid Borrowing may not exceed the applicable amount set forth in the related Competitive Bid Quote Request;

(ii) the aggregate principal amount of each Competitive Bid Borrowing shall be at least \$5,000,000 (or an increment of \$1,000,000 in excess thereof) but shall not cause the limits specified in SECTION 2.2(A) hereof to be violated;

(iii) except as provided below, acceptance of Competitive Bid Quotes for any Interest Period may be made only in ascending order of Absolute Rates or Eurodollar Competitive Rates, as the case may be, beginning with the lowest rate so offered; and

(iv) the Borrower may not accept any Competitive Bid Quote where such Competitive Bid Quote fails to comply with SECTION 2.2(C)(II) hereof or otherwise fails to comply with the requirements of this Agreement (including, without limitation, SECTION 2.2(A) hereof).



Any of the conditions above notwithstanding, the Borrower may, in its sole discretion, accept a Competitive Bid Quote that does not contain the lowest Absolute Rate or Eurodollar Competitive Rates, as the case may be, where acceptance of the Competitive Bid Quote containing the lowest Absolute Rate or Eurodollar Competitive Rate, as the case may be, would cause the principal amount of Outstanding of a Lender or Lenders offering the lowest Absolute Rate or Eurodollar Competitive Rate, as the case may be, to exceed the Total Revolving Credit Commitment.

If Competitive Bid Quotes are made by two or more Lenders with the same Absolute Rates or Eurodollar Competitive Rates, as the case may be, for a greater aggregate principal amount than the amount in respect of which Competitive Bid Quotes are accepted for the related Interest Period after the acceptance of all Competitive Bid Quotes, if any, of all lower Absolute Rates or Eurodollar Competitive Rates, as the case may be, offered by any Lender for such related Interest Period, the principal amount of Competitive Bid Loans in respect of which such Competitive Bid Quotes are accepted shall be allocated by the Borrower among such Lenders as nearly as possible (in amounts of at least \$1,000,000 or in increments of \$100,000 in excess thereof) in proportion to the aggregate principal amount of such Competitive Bid Quotes. Determinations by the Borrower of the amounts of Competitive Bid Loans and the lowest bid after adjustment as provided in SECTION 2.2(d) (iii) shall be conclusive in the absence of manifest error.

(e) Any Lender whose offer to make any Competitive Bid Loan has been accepted shall, not later than 1:00 p.m. on the date specified for the making of such Loan, make the amount of such Loan available to the Borrower at the Borrower's Account or otherwise as shall be directed by the Authorized Representative in Dollars and in immediately available funds.

(f) From time to time, the Borrower shall furnish such information to the Agent as the Agent may request relating to the making of Competitive Bid Loans, including the amounts, interest rates, dates of borrowings and maturities thereof.

(g) The Borrower may request the Agent, and the Agent in its sole discretion may agree, to receive the Competitive Bid Quotes, in which event the Agent shall (A) in the case of a Competitive Bid Loan at the Absolute Rate, as promptly as practicable after the Competitive Bid Quote is submitted (but in no event later than 10:00 a.m., on the Quotation Date) or (B) in the case of a Competitive Bid Loan at the Eurodollar Competitive Rate, by 10:00 a.m. on the date a Competitive Quote is submitted, notify the Borrowers of the terms of any Competitive Bid Quote submitted by a Lender that is in accordance with SECTION 2.2(c) hereof. The Agent's notice to the Borrower shall specify (A) the aggregate principal amount of the Competitive Bid Borrowing for which Competitive Bid Quotes have been received and (B) the respective principal amounts and Absolute Rates or Eurodollar Competitive Rate, as the case may be, offered by each Lender (identifying the Lender that made each Competitive Bid Quote). Not later than 10:30 a.m. on (A) the third Business Day prior to the proposed date of borrowing, in the case of Competitive Bid

Loans at the Eurodollar Competitive Rate or (B) the Quotation Date (or, in any such case, such other time and date as the Borrower and the Agent, with the consent of the Required Lenders, may agree), the Borrower shall notify the Agent of their acceptance or nonacceptance of the Competitive Bid Quotes so notified to it (and the failure of the Borrower to give such notice by such time shall constitute nonacceptance) and the Agent shall promptly notify each affected Lender. Together with each notice of a request for Competitive Bid Quotes, which the Borrower requires the Agent to issue pursuant to this paragraph (g), the Borrower shall pay to the Agent for the account of the Agent a bid administration fee of \$1,500.00.

2.3 PAYMENT OF INTEREST. (a) The Borrower shall pay interest (i) to the Agent at the Principal Office for the account of each Lender on the outstanding and unpaid principal amount of each Revolving Loan made by such Lender for the period commencing on the date of such Loan until such Loan shall be due at the Eurodollar Rate or the Base Rate, as elected or deemed elected by the Borrower or otherwise applicable to such Loan as herein provided, (ii) to the Lender at its Lending Office making each Competitive Bid Loan, at the applicable Absolute Rate or Eurodollar Competitive Rate, as the case may be, and (iii) to the Agent in the case of each Swing Line Loan, at the Base Rate or such other rate as NationsBank and the Borrower may agree; PROVIDED, however, that if any amount shall not be paid when due (at maturity, by acceleration or otherwise), all amounts outstanding hereunder shall bear interest thereafter at the Default Rate.

(b) Interest on the outstanding principal balance of each Loan shall be computed on the basis of a year of 360 days and calculated for the actual number of days elapsed. Interest on the outstanding principal balance of each Loan shall be paid (a) quarterly in arrears, such payment to be made not later than the last Business Day of each June, September, December and March commencing on the last Business Day of June 1999, on each Base Rate Loan, (b) on the last day of the applicable Interest Period for each Eurodollar Rate Loan and Competitive Bid Loan, but in no event less frequently than at the end of each three month period and (c) upon payment in full of the principal amount of such Loan at the Revolving Credit Termination Date.

2.4 PAYMENT OF PRINCIPAL. The principal amount of the Revolving Credit Outstandings, outstanding Competitive Bid Loans and all Swing Line Outstandings shall be due and payable to the Agent for the benefit of each Lender in full on the Revolving Credit Termination Date, or earlier as herein expressly provided. The principal amount of all Competitive Bid Loans shall be due and payable to the Lender making such Competitive Bid Loan in full on the last day of the Interest Period therefor, or earlier as herein expressly provided. The principal amount of Eurodollar Rate Loans may only be prepaid at the end of the applicable Interest Period, unless the Borrower shall pay to the Agent for the account of the Lenders the amount, if any, required under SECTION 4.4. The principal amount of Competitive Bid Loans may only be prepaid at the end of the applicable Interest Period, unless (i) the Borrower shall have retained in the Competitive Bid Quote Request with respect to such Competitive Bid Loans the right of prepayment, and (ii) the Borrower shall

have paid to the Lender making such Competitive Bid Loans or to the Agent, as applicable, the amounts, if any, required under SECTION 4.4. The Borrower shall furnish the Agent telephonic notice of its intention to make a principal payment (including Competitive Bid Loans) prior to 11:00 A.M. on the date of such payment. All payments of principal on Loans other than Competitive Bid Loans and Swing Line Loans shall be in the amount of \$2,500,000 or such greater amount which is an integral multiple of \$500,000.

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

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

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

2.6 NOTES. (a) Revolving Loans made by each Lender, shall be evidenced by, and be repayable with interest in accordance with the terms of, the Revolving Note payable to the order of such Lender in the amount of its Applicable Commitment Percentage of the Total Revolving Credit Commitment, which Revolving Note shall be dated the Closing Date or such later date pursuant to an Assignment and Acceptance or an amendment to this Agreement and shall be duly completed, executed and delivered by the Borrower.

(b) Swing Line Loans made by NationsBank shall be evidenced by the Swing Line Note in the principal amount of \$15,000,000, and shall be repayable with interest in accordance with the terms of the Swing Line Note dated the Closing Date and duly executed and delivered by each Borrower.

(c) Competitive Bid Loans made by any Lender shall be evidenced by, and be repayable with interest in accordance with the terms of, the Competitive Bid Note payable to the order of such Lender in the amount of the Total Revolving Credit Commitment (but the aggregate outstanding principal amount of Competitive Bid Loans may not at any time exceed one hundred percent (100%) of the Total Revolving Credit Commitment) which shall be dated the date of issuance or such later date pursuant to an Assignment and Acceptance and shall be duly completed, executed and delivered by the Borrower.

2.7 PRO RATA PAYMENTS. Except as otherwise provided herein, (a) each payment and prepayment on account of the principal of and interest on the Loans (other than Competitive Bid Loans and Swing Line Loans) and the fees described in SECTIONS 2.10 hereof shall be made to the Agent in the aggregate amount payable to the Lenders for the account of the Lenders pro rata based on their Applicable Commitment Percentages, (b) each payment of principal and interest on the Competitive Bid Loans shall be made to (i) the Agent for the account of the respective Lender making such Competitive Bid Loan if the Borrower has elected that the Agent act under SECTION 2.2(G) hereof and (ii) otherwise directly to the Lender making such Competitive Bid Loan, (c) each payment of principal and interest on Swing Line Loans shall be made to the Agent for the account of NationsBank, (d) all payments to be made by the Borrower for the account of each of the Lenders on account of principal, interest and fees, shall be made without set-off or counterclaim, and (e) the Agent will distribute such payments when received to the Lenders as provided for herein and subject to SECTION 4.6."

(e) SECTION 2.10 is hereby amended in its entirety so that as amended it shall read as follows:

"2.10. UNUSED FEES. For the period beginning on the Closing Date and ending on the Revolving Credit Termination Date, the Borrower agrees to pay to the Agent for the benefit of each Lender an unused fee equal to the Applicable Unused Fee multiplied by the average daily amount of the unused portion of such Lender's Revolving Credit Commitment. For each Lender, the amounts outstanding under Competitive Bid Loans and such Lender's Applicable Commitment Percentage of Letter of Credit Outstandings shall be subtracted from such Lender's Revolving Credit Commitment in making the calculation of its unused fee but in no event shall the unused fee be less than zero for any period. Swing Line Loans shall not be outstanding Loans for purposes of determining such fee. Such fee shall be due in arrears on the last Business Day of each June, September, December and March commencing September 30, 1997 to and on the Revolving Credit Termination Date. Notwithstanding the foregoing, so long as any Lender fails to make available any portion of its Revolving Credit Commitment when requested, such Lender shall not be entitled to receive payment of its pro rata share of such fee until such Lender shall make available such portion. Such fee shall be

calculated on the basis of a year of 360 days for the actual number of days elapsed.

(f) SECTION 2.12 is hereby amended in its entirety so that as amended it shall read as follows:

"2.12. USE OF PROCEEDS. The proceeds of the Loans made pursuant to the Revolving Credit Facility, the Competitive Bid Facility, the Swing Line and the Letter of Credit issued pursuant to the Letter of Credit Facility shall be used by the Borrower (i) for working capital needs and (ii) for general corporate purposes, including the making of Acquisitions permitted hereunder."

(g) Wherever there is a cross reference to SECTION 2.8 in the Agreement, such cross reference is hereby amended to refer to SECTION 2.9.

(h) Clause (iii) of the first sentence of SECTION 3.1 is hereby amended in its entirety so that as amended it shall read as follows:

"(iii) no Letter of Credit shall be issued if, after giving effect thereto, the principal amount of Outstandings shall exceed the Total Revolving Credit Commitment."

(i) SECTIONS 4.1 THROUGH 4.5 are hereby amended in order that (i) wherever the phrase "Eurodollar Rate Loan" or "Eurodollar Rate Loans" appears in any of such Sections, such phrase shall include all Competitive Bid Loans which bear interest at the Eurodollar Competitive Rate and (ii) wherever the phrase "Eurodollar Rate" appears in such Sections, such phrase shall include "Eurodollar Competitive Rate." In addition, SECTION 4.1 is further amended in order that wherever the phrase "Eurodollar Rate" appears in such Section, such phrase shall include "Absolute Rate."

(j) Clause (iv) of SECTION 5.2(E) is hereby amended in its entirety so that as amended it shall read as follows:

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

(k) SECTION 8.16 is hereby amended by deleting the figure "\$260,000,000" appearing therein and inserting in lieu thereof the figure "\$315,000,000".

(l) Clause (iii) of SECTION 11.1 is hereby amended in its entirety so that as amended it shall read as follows:

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

Loans and Participations but excluding outstanding  
Competitive Bid Loans); and"

(m) EXHIBIT A to the Agreement is hereby amended in its  
entirety so that as amended it is in the form attached as EXHIBIT  
A to this Amendment Agreement.

3. GUARANTORS. Each of the Guarantors has joined into the execution of this Agreement for the purpose of consenting to the amendment contained herein and reaffirming its guaranty of the Obligations as increased by the terms of this Amendment Agreement.

4. BORROWER'S REPRESENTATIONS AND WARRANTIES. The Borrower hereby represents, warrants and certifies that:

1. The representations and warranties made by it in Article VI of the Credit Agreement are true on and as of the date hereof before and after giving effect to this Agreement except that the financial statements referred to in Section 6.6(a) shall be those most recently furnished to each Lender pursuant to Section 7.1(a) and (b) of the Credit Agreement and except that SCHEDULE 6.10 is replaced with SCHEDULE 6.10 attached hereto;

a) The Borrower has the power and authority to execute and perform this Agreement and has taken all action required for the lawful execution, delivery and performance thereof.

b) There has been no material adverse change in the condition, financial or otherwise, of the Borrower and its Subsidiaries since the date of the most recent financial reports of the Borrower received by each Lender under Section 7.1 of the Credit Agreement, other than changes in the ordinary course of business, none of which has been a material adverse change;

c) The business and properties of the Borrower and its Subsidiaries are not, and since the date of the most recent financial report of the Borrower and its Subsidiaries received by the Agent under Section 7.1 of the Credit Agreement have not been, adversely affected in any substantial way as the result of any fire, explosion, earthquake, accident, strike, lockout, combination of workmen, flood, embargo, riot, activities of armed forces, war or acts of God or the public enemy, or cancellation or loss of any major contracts; and

d) No event has occurred and no condition exists which, upon the consummation of the transaction contemplated hereby, constituted a Default or an Event of Default on the part of the Borrower under the Credit Agreement or the Notes either immediately or with the lapse of time or the giving of notice, or both.

5. CONDITIONS TO EFFECTIVENESS. This Amendment Agreement shall become effective upon receipt by the Agent of the following:

(a) twelve (12) counterparts of this Amendment Agreement executed by the parties hereto;

(b) Revolving Notes in favor of each Lender whose Revolving Credit Commitment is increasing in the amount of its Revolving Credit Commitment and Competitive Bid Notes in favor of each Lender in the amount of the Competitive Bid Facility;

(c) an opinion of counsel for the Borrower and each of its Subsidiaries in form acceptable to the Agent;

(d) copies of resolutions of the Boards of Directors of the Borrower and each of its Subsidiaries authorizing the transaction contemplated by this Amendment Agreement certified by the Secretary or Assistant Secretary of each Borrower and Subsidiary; and

(e) such other instruments and documents as the Agent may reasonably request.

6. ENTIRE AGREEMENT. This Agreement sets forth the entire understanding and agreement of the parties hereto in relation to the subject matter hereof and supersedes any prior negotiations and agreements among the parties relative to such subject matter. None of the terms or conditions of this Agreement may be changed, modified, waived or canceled orally or otherwise, except by writing, signed by all the parties hereto, specifying such change, modification, waiver or cancellation of such terms or conditions, or of any proceeding or succeeding breach thereof.

7. FULL FORCE AND EFFECT OF AGREEMENT. Except as hereby specifically amended, modified or supplemented, the Credit Agreement and all of the other Loan Documents are hereby confirmed and ratified in all respects and shall remain in full force and effect according to their respective terms.

8. COUNTERPARTS. This Agreement may be executed in any number of counterparts and all the counterparts taken together shall be deemed to constitute one and the same instrument.

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

BORROWER:

WATSCO, INC.

WITNESS:

/s/ SUMNER N. SMITH

-----

/s/ SALLY Y. HERTZ

-----

By: /s/ ANA MENENDEZ

-----

Name: Ana Menendez

Title: Treasurer

GUARANTORS:

WATSCO INVESTMENTS I, INC.  
 WATSCO INVESTMENTS II, INC.  
 CDS HOLDINGS, INC.  
 COASTLINE DISTRIBUTION, INC.  
 A&C DISTRIBUTORS, INC.  
 GEMAIRE DISTRIBUTORS, INC.  
 H.B. ADAMS DISTRIBUTORS, INC.  
 GEM CREDIT CORPORATION  
 THE FLORIDA AD COMPANY  
 GEMAIRE INTERNATIONAL, INC.  
 GEMAIRE HOLDINGS, INC.  
 GEMAIRE CARIBE, INC.  
 COMFORT SUPPLY, INC.  
 WATSCO EXPORT, INC.  
 THE HOUSTON AD COMPANY, INC.  
 HEATING & COOLING SUPPLY, INC.  
 THREE STATES SUPPLY COMPANY, INC.  
 CP DISTRIBUTORS, INC.  
 COMFORT PRODUCTS DISTRIBUTING, INC.  
 CENTRAL PLAINS DISTRIBUTING, INC.  
 CENTRAL AIR CONDITIONING  
 DISTRIBUTORS, INC.  
 WEATHERTROL SUPPLY COMPANY  
 AIR SYSTEMS DISTRIBUTORS, INC.  
 DUNHILL STAFFING SYSTEMS, INC.  
 DUNHILL TEMPORARY SYSTEMS OF  
 INDIANAPOLIS, INC.  
 DUNHILL TEMPORARY SYSTEM OF  
 INDIANAPOLIS, L.P.  
 DUNHILL TEMPORARY SYSTEMS, INC.  
 DUNHILL PERSONNEL SYSTEM OF  
 NEW JERSEY, INC.  
 DUNHILL STAFFING SYSTEMS OF  
 MILWAUKEE, INC.  
 DUNHILL ENTERPRISES, INC.

WITNESS:

/s/ SUMNER N. SMITH  
 -----

/s/ SALLY Y. HERTZ  
 -----

By: /s/ ANA MENENDEZ  
 -----

Name: Ana Menendez  
 Title: Treasurer



BAKER DISTRIBUTING COMPANY  
INTERCOMPANY SERVICES  
INCORPORATED  
AIR SUPPLY, INC.  
WSO DISTRIBUTORS LLC  
WSO HOLDINGS LLC  
DUNHILL HOLDINGS LLC  
BELKNAP COMPANY  
A C EQUIPMENT & PARTS, INC.  
SUPERIOR SUPPLY COMPANY, INC.  
SUPERIOR SUPPLY COMPANY OF  
OKLAHOMA, INC.  
KAUFMAN SUPPLY, INC.  
YRK HOLDINGS, INC.  
HOMANS ASSOCIATES, INC.  
HEAT INCORPORATED  
COMFORT-AIRE DISTRIBUTORS  
NSI SUPPLY, INC.  
WILLIAM WURZBACH COMPANY, INC.

WITNESS:

/s/ SUMNER N. SMITH  
-----

/s/ SALLY Y. HERTZ  
-----

By: /s/ ANA MENENDEZ  
-----

Name: Ana Menendez  
Title: Treasurer

AGENT:  
NATIONSBANK, NATIONAL ASSOCIATION, as Agent  
for the Lenders

By: /s/ RICHARD M. STARKE

-----  
Name: Richard M. Starke  
Title: Senior Vice President

LENDERS:

NATIONSBANK, NATIONAL ASSOCIATION

By: /s/ RICHARD M. STARKE

-----  
Name: Richard M. Starke  
Title: Senior Vice President

FIRST UNION NATIONAL BANK

By: /s/ LLOYD KOSSALLY

-----  
Name: Lloyd Kossally

Title: Senior Vice President

SUNTRUST BANK, MIAMI, N.A.

By: /s/ DAVID J. EDGE

-----  
Name: David J. Edge

Title: Vice President

THE BANK OF NEW YORK

By: /s/ DAVID C. SIEGEL

-----  
Name: David C. Siegel

Title: Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD.

By: /s/ THOMAS M. FENNESSEY

-----  
Name: Thomas M. Fennessey

Title: Vice President

COMERICA BANK

By: /s/ MARTIN G. ELLIS

-----  
Name: Martin G. Ellis

Title: Vice President

WACHOVIA BANK, N.A.

By: /s/ PATRICK A. PHELAN

-----  
Name: Patrick A. Phelan  
Title: Vice President



DRESDNER BANK LATEINAMERIKA AG

By: /s/ JOSEFINA HERNANDEZ

-----  
Name: Josefina Hernandez  
Title: Assistant Vice President

By: /s/ ANTONIO ABIANTUM

-----  
Name: Antonio Abiantum  
Title: Assistant Vice President

DG BANK DEUTSCHE  
GENOSSENSCHAFTSBANK  
AG, CAYMAN ISLANDS BRANCH

By: /s/ JAMES L. YAGER  
-----

Name: James L. Yager, CPA  
Title: Vice President

By: /s/ ERIC K. ZIMMERMAN  
-----

Name: Eric K. Zimmerman  
Title: Assistant Vice President

THE INDUSTRIAL BANK OF JAPAN,  
LIMITED

By: /s/ MINAMI MIVRA

-----  
Name: Minami Mivra

Title: Vice President

THE NORTHERN TRUST COMPANY

By: /s/ RANHEELA GILL ANWAR

-----  
Name: Ranheela Gill Anwar

Title: Vice President

EXHIBIT A

Applicable Commitment Percentages

Lender -----	Revolving Credit Commitment -----	Applicable Commitment Percentage -----
NationsBank, National Association	\$ 75,000,000	23.809523810%
First Union National Bank	\$ 55,000,000	17.460317460%
SunTrust Bank, Miami, N.A.	\$ 30,000,000	9.523809524%
Dresdner Bank Lateinamerika AG	\$ 25,000,000	4.761904762%
The Bank of New York	\$ 15,000,000	4.761904762%
The Bank of Tokyo-Mitsubishi, Ltd.	\$ 15,000,000	4.761904762%
Comerica Bank	\$ 15,000,000	4.761904762%
DG Bank Deutsche Genossenschaftsbank		
AG, Cayman Islands Branch	\$ 15,000,000	4.761904762%
The Northern Trust Company	\$ 15,000,000	4.761904762%
	----- \$315,000,000	----- 100%

EXHIBIT F-2  
Form of Swing Line Loan

\$15,000,000.00

Charlotte, North Carolina  
August 8, 1997

FOR VALUE RECEIVED, WATSCO, INC., a Florida corporation having its principal place of business located in Miami, Florida (the "Borrower"), hereby promises to pay to the order of

NATIONSBANK, NATIONAL ASSOCIATION (the "Lender"), in its individual capacity, at the office of NATIONSBANK, NATIONAL ASSOCIATION, as agent for the Lenders (the "Agent"), located at One Independence Center, 101 North Tryon Street, NC1-001-15-04, Charlotte, North Carolina 28255 (or at such other place or places as the Agent may designate in writing) at the times set forth in the Amended and Restated Revolving Credit and Reimbursement Agreement dated as of August 8, 1997 among the Borrower, the financial institutions party thereto (collectively, the "Lenders") and the Agent (the "Agreement" -- all capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Agreement), in lawful money of the United States of America, in immediately available funds, the aggregate unpaid principal amount of the Swing Line Loans made by the Lender to the Borrower pursuant to the Agreement and to pay interest on the unpaid principal amount of each such Swing Line Loan, in like money, at said office, for the period commencing on the date of such Swing Line Loan until such Swing Line Loan shall be paid in full, on the dates and at the rates provided in Article II of the Agreement. All or any portion of the principal amount of Swing Line Loans may be prepaid as provided in the Agreement.

If payment of all sums due hereunder is accelerated under the terms of the Agreement or under the terms of the other Loan Documents executed in connection with the Agreement, the then remaining principal amount of Loans and accrued but unpaid interest thereon shall bear interest which shall be payable on demand at the rates per annum set forth in the proviso to SECTION 2.2(A) of the Agreement. Further, in the event of such acceleration, this Swing Line Note shall become immediately due and payable, without presentation, demand, protest or notice of any kind, all of which are hereby waived by the Borrower.

In the event any amount evidenced by this Swing Line Note is not paid when due at any stated or accelerated maturity, the Borrower agrees to pay, in addition to the principal and interest, all costs of collection, including reasonable attorneys' fees, and interest due hereunder thereon at the rates set forth above.

Interest hereunder shall be computed as provided in the Agreement.

This Swing Line Note is one of the Notes referred to in the Agreement and is issued pursuant to and entitled to the benefits and security of the Agreement to which reference is hereby made for a more complete statement of the terms and conditions upon which the Swing Line Loans evidenced hereby were or are made and are to be repaid. This Swing Line Note is subject to certain restrictions on transfer or assignment as provided in the Agreement.

This Swing Line Note shall be governed by and construed in accordance with the internal substantive laws of the State of North Carolina.

All Persons bound on this obligation, whether primarily or secondarily liable as principals, sureties, guarantors, endorsers or otherwise, hereby waive to the full extent permitted by law the benefits of all provisions of law for stay or delay of execution or sale of property or other satisfaction of judgment against any of them on account of liability hereon until judgment be obtained and execution issues against any other of them and returned satisfied or until it can be shown that the maker or any other party hereto had no property available for the satisfaction of the debt evidenced by this instrument, or until any other proceedings can be had against any of them, also their right, if any, to require the holder hereof to hold as security for this Swing Line Note any collateral deposited by any of said Persons as security. Protest, notice of protest, notice of dishonor, diligence or any other formality are hereby waived by all parties bound hereby.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Borrower has caused this Swing Line Note to be made, executed and delivered by its duly authorized representative as of the date and year first above written, all pursuant to authority duly granted.

WATSCO, INC.

WITNESS:

\_\_\_\_\_  
\_\_\_\_\_

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

EXHIBIT F-3  
FORM OF COMPETITIVE BID NOTE  
PROMISSORY NOTE

\$315,000,000

\_\_\_\_\_, 1999

FOR VALUE RECEIVED, WATSCO, INC., a Florida corporation having its principal place of business located in Coconut Grove, Florida (the "Borrower") hereby promises to pay as provided in the Credit Agreement (as defined below), to the order of

\_\_\_\_\_  
(the "Lender"), in its individual capacity, at the office of NationsBank, N.A., as administrative agent for the Lender (the "Agent"), located at 101 North Tryon Street, 15th Floor, NCl-001-15-04, Charlotte, North Carolina 28255 (or at such other place or places as the Agent may designate) at the times set forth in the Amended and Restated Revolving Credit and Reimbursement Agreement dated August 8, 1997 among the Borrowers, the financial institutions party thereto (collectively, the "Lenders") and the Administrative Agent (as amended, supplemented or otherwise modified and in effect from time to time, the "Credit Agreement"; all capitalized terms not otherwise defined herein shall have the respective meanings set forth in the Credit Agreement), in lawful money of the United States of America and in immediately available funds, the aggregate unpaid principal amount of all Competitive Bid Loans made by the Lender to the Borrower, on the dates and in the principal amounts set forth in the Lender's Competitive Bid Quote and accepted by the Borrower, and to pay interest on the unpaid principal amount of each such Competitive Bid Loan, at such office, in like money and funds, for the period commencing on the date of such Competitive Bid Loan until such Competitive Bid Loan shall be paid in full, at the rates per annum and on the dates set forth in the Lender's Competitive Bid Quote and accepted by the Borrower.

The date, amount, type of loan, interest rate and maturity date of each Competitive Bid Loan made by the Lender to the Borrower, and each payment made on account of the principal thereof, shall be recorded by the Lender on its books and, prior to any transfer of this Note, endorsed by the Lender on the schedule attached hereto or any continuation thereof, PROVIDED that the failure of the Lender to make any such recordation or endorsement shall not affect the obligations of the Borrower to make a payment when due of any amount owing under the Credit Agreement or hereunder in respect of the Competitive Bid Loans made by the Lender.

This Note is one of the Competitive Bid Notes referred to in the Credit Agreement and is issued pursuant to and entitled to the benefits and security of the Credit Agreement to which reference is hereby made for a more complete statement of the terms and conditions upon which the Competitive Bid Loans evidenced hereby were made or are made and are to be repaid. This Note is subject to certain restrictions on transfer or assignment as provided in the Agreement.



If payment of all sums due hereunder is accelerated under the terms of the Credit Agreement or under the terms of the other Loan Documents executed in connection with the Credit Agreement, the then remaining principal amount and accrued but unpaid interest shall bear interest which shall be payable on demand at the rates per annum set forth in ARTICLE II of the Credit Agreement, or the maximum rate permitted under applicable law, if lower, until such principal and interest have been paid in full. Further, in the event of such acceleration, this Note, and all other indebtedness of the Borrower to the Lender under the Loan Documents shall become immediately due and payable, without presentation, demand, protest or notice of any kind, all of which are hereby waived by the Borrowers. Upon acceleration interest shall be payable at the Absolute Rate or the Eurodollar Competitive Rate, as the case may be, plus two percent (2%) per annum.

In the event this Note is not paid when due at any stated or accelerated maturity, the Borrowers agree to pay, in addition to the principal and interest, all costs of collection, including reasonable attorneys' fees, and interest thereon at the rates set forth above.

Interest hereunder shall be computed on the basis of a 360 day year for the actual number of days in the interest period.

The Credit Agreement provides for the acceleration of the maturity of this Note upon the occurrence of certain events upon the terms and conditions specified therein.

Except as permitted by SECTION 11.1 of the Credit Agreement, this Note may not be assigned by the Lender to any other Person.

This Note shall be governed by, and construed in accordance with, the laws of the State of Florida.

All Persons bound on this obligation, whether primarily or secondarily liable as principals, sureties, guarantors, endorsers or otherwise, hereby waive to the full extent permitted by law the benefits of all provisions of law for stay or delay of execution or sale of property or other satisfaction of judgment against any of them on account of liability hereon until judgment be obtained and execution issues against any other of them and returned satisfied or until it can be shown that the maker or any other party hereto had no property available for the satisfaction of the debt evidenced by this instrument, or until any other proceedings can be had against any of them, also their right, if any, to require the holder hereof to hold as security for this Note any collateral deposited by any of said Persons as security. Protest, notice of protest, notice of dishonor, diligence or any other formality are hereby waived by all parties bound hereon.

IN WITNESS WHEREOF, the Borrower has caused this Note to be made, executed and delivered by its duly authorized representative as of the date and year first above written, all pursuant to authority duly granted.

WITNESS:

WATSCO, INC.

By:

Name:

Title:

SCHEDULE OF COMPETITIVE BID LOANS

This Note evidences Competitive Bid Loans made under the within-described Credit Agreement to the Borrower, on the dates, in the principal amounts, of the types, bearing interest at the rates and maturing on the dates set forth below, subject to the payments and prepayments of principal set forth below:

Date of Loan	Principal Amount of Loan	Type of Loan (Absolute Rate or Eurodollar Competitive Rate)	Interest Rate	Maturity Date of Loan	Amount Paid or Prepaid	Unpaid Principal Amount	Notation Made By
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EXHIBIT J  
FORM OF COMPETITIVE BID QUOTE REQUEST  
[Date]

To: NationsBank, N.A.,  
as administrative agent

Attention: Agency Services

Re: Competitive Bid Quote Request

Pursuant to SECTION 2.2 of the Amended and Restated Revolving Credit and Reimbursement Agreement dated as of August 8, 1997 (as amended, supplemented or otherwise modified and in effect from time to time, the "Credit Agreement") among Watsco, Inc., the lenders named therein and NationsBank, N.A., as agent, we hereby give notice that we request Competitive Bid Quotes, [with][without] the right of prepayment, for the following proposed Competitive Bid Borrowing(s):

Borrowing Date(1)	Type of Loan(2)	Date	Quotation Amount(3)	Interest Period(4)
----------------------	--------------------	------	------------------------	-----------------------

Terms used herein have the meanings assigned to them in the Credit Agreement.

[Watsco, Inc.]  
By:  
Authorized Representative

- 
- (1) At least four (4) Business Days later if at the Eurodollar Competitive Rate.
- (2) Competitive Bid Loan at  
(a) Absolute Rate; or  
(b) Eurodollar Competitive Rate
- (3) Each amount must be \$\_\_\_\_\_ or a multiple of \$\_\_\_\_\_ in excess thereof. 4 A period of up to 120 days after the making of such Competitive Bid Loan and ending on a Business Day for Competitive Bid Loans at the Absolute Rate. For any Competitive Bid Loan at the Eurodollar Competitive Rate, one week or one, two, three or six months.

EXHIBIT K  
FORM OF COMPETITIVE BID QUOTE

To: [Watsco, Inc.] ("Borrower") [or NationsBank, N.A., as  
administrative agent]

Attention: [\_\_\_\_\_]

Re: Competitive Bid Quote

The Competitive Bid Quote is given in accordance with SECTION 2.2 of the Amended and Restated Revolving Credit and Reimbursement Agreement dated as of August 8, 1997 (as amended, supplemented or otherwise modified and in effect from time to time, the "Credit Agreement") among Watsco, Inc., the lenders named therein and NationsBank, N.A., as administrative agent. Terms defined in the Credit Agreement are used herein as defined therein.

In response to the Borrower's invitation dated \_\_\_\_\_, \_\_\_\_\_, we hereby make the following Competitive Bid Quote(s) on the following terms:

1. Quoting Lender:

2. Person to contact at Quoting Lender:

3. We hereby offer to make Competitive Bid Loan(s) in the following principal amount(s), for the following interest Period(s) and at the following rate(s):

Borrowing Date	Type of Loan(1)	Date(2)	Quotation Amount(3)	Interest Period(4)
-------------------	--------------------	---------	------------------------	-----------------------

RATE5

- -----

(1) At Absolute Rate or Eurodollar Competitive Rate

(2) As specified in the related Competitive Bid Quote Request

(3) The principal amount bid for each Interest Period may not exceed the principal amount requested. Bids must be made for at least \$\_\_\_\_\_ or a multiple of \$\_\_\_\_\_ in excess thereof.

(4) A period of up to 120 days after the making of such Competitive Bid Loan and ending on a Business Day for Competitive Bid Loans at the Absolute Rate. For Competitive Bid Loans at the Eurodollar Competitive Rate, one week or one, two, three, or six months, as specified in the related Competitive Bid Quote Request.

(5) Specify positive margin or negative margin to be added to or deducted from the InterBank Offered Rate.

We understand and agree that the offer(s) set forth above, subject to the satisfaction of the applicable conditions set forth in the Credit Agreement, irrevocably obligate(s) us to make the Competitive Bid Loan(s) for which any offer(s) (is/are) accepted, in whole or in part.

Dated: \_\_\_\_\_, \_\_\_\_

Very truly yours,

[NAME OF LENDER]

By:

Authorized Officer

- - - - -  
Insert name of Lender

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE WATSCO, INC. FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

	1,000
	6-MOS
	DEC-31-1999
	JUN-30-1999
	7,140
	0
	188,396
	6,211
	244,703
	456,240
	59,617
	28,588
	633,005
113,889	218,793
0	0
	14,352
	283,292
633,005	331,011
	331,011
	253,862
	253,862
	54,126
	1,862
	3,387
	17,774
	6,601
11,173	404
	0
	0
	11,577
	.40
	.39