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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2011

☐ **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

WATSCO, INC.

(Exact name of registrant as specified in its charter)

FLORIDA	**59-0778222**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

2665 South Bayshore Drive, Suite 901, Miami, FL 33133
(Address of principal executive offices, including zip code)

(305) 714-4100
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $0.50 par value	New York Stock Exchange and the Professional Segment of NYSE Euronext in Paris
Class B common stock, $0.50 par value	NYSE Amex

Securities registered pursuant to section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☒ NO ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ☐ NO ☒

The aggregate market value of the registrant's voting stock (common stock) held by non-affiliates of the registrant as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $1,712 million, based on the closing sale price of the registrant's common stock on that date. For purposes of determining this number all executive officers and directors of the registrant as of June 30, 2011 were considered to be affiliates of the registrant. This number is provided only for the purposes of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

The number of shares of common stock outstanding as of February 24, 2012 was (i) 28,359,924 shares of Common stock, excluding treasury shares of 6,322,650, and (ii) 4,660,931 shares of Class B common stock, excluding treasury shares of 48,263.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Parts I and II is incorporated by reference from the Registrant's 2011 Annual Report, attached hereto as Exhibit 13. The information required by Part III (Items 10, 11, 12, 13 and 14) is incorporated by reference from the Registrant's definitive proxy statement for the 2012 annual meeting of shareholders (to be filed pursuant to Regulation 14A).

WATSCO, INC. AND SUBSIDIARIES

Index to 2011 Annual Report
on Form 10-K
Year Ended December 31, 2011

PART I

ITEM 1. BUSINESS

General

Watsco, Inc. and its subsidiaries (collectively, "Watsco," or *we, us* or *our*) was incorporated in 1956 and is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry. At December 31, 2011 we operated from 542 locations in 38 states, Mexico and Puerto Rico with additional market coverage on an export basis to Latin America and the Caribbean, through which we serve more than 50,000 contractors and dealers that service the replacement and new construction markets. Our revenues in HVAC/R distribution have increased from $64.1 million in 1989 to $2.98 billion in 2011 via a strategy of acquiring companies with established market positions and subsequently building revenues and profit through a combination of adding locations, products, services and other initiatives.

Our principal executive office is located at 2665 South Bayshore Drive, Suite 901, Miami, Florida 33133, and our telephone number is (305) 714-4100. Our website address on the Internet is www.watsco.com and e-mails may be sent to info@watsco.com. The reference to our website address does not constitute incorporation by reference of the information contained on, or linked to, the website and none of such information is part of this report.

Residential Central Air Conditioning, Heating and Refrigeration Industry

The HVAC/R distribution industry is highly fragmented with more than 2,300 distribution companies. The industry is well-established, having had its primary period of growth during the post-World War II era with the advent of affordable central air conditioning and heating systems for both residential and commercial applications.

Based on data published in 2011 by the Air Conditioning, Heating and Refrigeration Institute and other available data, we estimate the market for residential central air conditioning, heating and refrigeration equipment and related parts and supplies in the U.S. is approximately $30.0 billion. Residential central air conditioners are manufactured primarily by seven major companies that together account for approximately 90% of all units shipped in the U.S. each year. These companies are: Carrier Corporation ("Carrier"), a subsidiary of United Technologies Corporation, Goodman Manufacturing Company, L.P. ("Goodman"), a subsidiary of Goodman Global, Inc., Rheem Manufacturing Company ("Rheem"), Trane Inc., a subsidiary of Ingersoll-Rand Company Limited, York International Corporation, a subsidiary of Johnson Controls, Inc., Lennox International, Inc. and Nordyne Corporation ("Nordyne"), a subsidiary of Nortek Corporation. These manufacturers distribute their products through a combination of factory-owned and independent distributors who, in turn, supply the equipment and related parts and supplies to contractors and dealers nationwide that sell to and install the products for consumers, businesses and other end-users.

Central air conditioning and heating equipment is sold to the residential replacement market, the commercial market and residential new construction market. The replacement market has increased in importance over the past several years as a result of the aging of the installed base of residential central air conditioners and furnaces, the introduction of new higher energy efficient models, the remodeling and expansion of existing homes, the addition of central air conditioning to homes that previously had only heating products and consumers' overall unwillingness to live without air conditioning or heating products. The mechanical life of central air conditioning and furnaces varies by geographical region due to usage and is estimated to range from 8 to 20 years. According to data published by the Energy Information Administration, there are approximately 89 million central air conditioning and heating systems installed in the U.S. that have been in service for more than 10 years. Many installed units are reaching the end of their useful lives, thus providing a growing and stable replacement market.

We also sell products to the refrigeration market. These products include condensing units, compressors, evaporators, valves, refrigerant, walk-in coolers and ice machines for industrial and commercial applications. We distribute products manufactured by Copeland Compressor Corporation, a subsidiary of Emerson Electric Co. ("Emerson"), E. I. Du Pont De Nemours and Company ("DuPont"), Mueller Industries, Inc., Owens Corning Insulating Systems, LLC and The Manitowoc Company, Inc. ("Manitowoc").

Business Strategy

We have a "buy and build" strategy that has produced substantial long-term growth in revenues and profits. The "buy" component of the strategy focuses on acquiring market leaders to either expand into new geographic areas or gain additional market share in existing markets. We employ a disciplined and conservative approach that seeks opportunities that fit well-defined financial and strategic criteria. The "build" component of the strategy focuses on implementing a growth culture at acquired companies, by adding products and locations to better serve customers, exchanging ideas and business concepts amongst the executive management teams and investing in new technologies. Newly acquired businesses have access to our capital resources and established vendor relationships to provide their customers with an expanded array of product lines on favorable terms and conditions with an intensified commitment to service.

Strategy in Existing Markets

Our strategy for growth in existing markets focuses on customer service and product expansion to satisfy the needs of the higher growth, higher margin replacement market, in which customers generally demand immediate, convenient and reliable service. We respond to this need by (i) offering a broad range of product lines, including the necessary equipment, parts and supplies to enable a contractor to install or repair a central air conditioner, furnace or refrigeration system, (ii) maintaining a strong density of warehouse locations for increased customer convenience, (iii) maintaining well-stocked inventories to ensure that customer orders are filled in a timely manner, (iv) providing a high degree of technical expertise at the point of sale and (v) developing and implementing technology to further enhance customer service capabilities. We believe these concepts provide a competitive advantage over smaller, less-capitalized competitors that are unable to commit resources to open and maintain additional locations, implement technological business solutions, provide the same range of products, maintain the same inventory levels or attract the wide range of expertise that is required to support a diverse product offering. In some geographic areas, we believe we have a competitive advantage over factory-operated distributor networks that typically do not maintain inventories of parts and supplies that are as diversified as ours and which have fewer warehouse locations than we do, which makes it more difficult for these competitors to meet the time-sensitive demands of the replacement market.

In addition to the replacement market, we sell to the new construction market. We believe our reputation for reliable, high-quality service and relationships with contractors, who may serve both the replacement and new construction markets, allow us to compete effectively in these markets.

Acquisition Strategy

We focus on acquiring businesses that either complement our current presence in existing markets or establish a presence in new geographic markets. Since 1989, we have acquired 58 HVAC/R distribution businesses, five of which currently operate as primary operating subsidiaries. The other smaller acquired distributors have been integrated into or are under the management of our primary operating subsidiaries. Through a combination of sales and market share growth, opening of new locations, tuck-in acquisitions, expansion of product lines, improved pricing and programs that have resulted in higher gross profit, performance incentives and a culture of equity value for key leadership, we have produced substantial sales and earnings growth post-acquisition. We continue to pursue additional strategic acquisitions and/or joint ventures to allow further penetration in existing markets and expansion into new geographic markets.

Product Line Expansion

We actively seek new or expanded territories of distribution from our key equipment suppliers. We currently maintain significant relationships with Carrier, Rheem, Goodman and Nordyne. We continually evaluate new parts and supply products to support equipment sales and further enhance service to our customers. This initiative includes increasing the product offering with existing vendors and identifying new product opportunities through traditional and non-traditional supply channels. We have also introduced private-label products as a means to obtain market share and grow revenues. We believe that our private-label branded products complement our existing product offerings at selected locations, based on customer needs and the particular market position and price of these products.

Operating Philosophy

Our acquired subsidiaries operate in a manner that builds upon the long-term relationships they have established between their suppliers and their customers. Typically, we seek to maintain the identity and culture of acquired businesses by retaining their historical trade names, management teams and sales organizations and by continuing their product brand-name offerings. We believe this strategy allows us to build on the value of the acquired operations by creating additional sales opportunities while providing an attractive exit strategy for the owners of companies that are acquired.

We maintain a specialized functional support staff at our corporate headquarters to support our subsidiaries' strategies for growth in their respective markets. Such functional support includes specialists in finance, accounting, product procurement, treasury and working capital management, tax planning, risk management and safety. Certain general and administrative expenses are targeted for cost savings by leveraging the overall business volume and improving operating efficiencies.

Technology

Our technology initiatives include: (i) implementation of effective point-of-sale systems that allow timely and effective customer service, including up-to-date pricing, credit checks, credit card processing and inventory availability; (ii) enabling connectivity with our suppliers and by our customers to the relevant components of our subsidiaries' business software; and (iii) developing our website, ACDoctor.com, that educates consumers about energy efficient HVAC solutions and financial incentives related to the installation of energy efficient systems and connects them with high quality contractors.

DESCRIPTION OF BUSINESS

Products

We sell an expansive line of products and maintain a diverse mix of inventory to meet our customers' immediate needs and seek to provide products a contractor would generally require when installing or repairing a central air conditioner, furnace or refrigeration system on short notice. The cooling capacity of air conditioning units is measured in tons. One ton of cooling capacity is equivalent to 12,000 British Thermal Units ("BTUs") and is generally adequate to air condition approximately 500 square feet of residential space. The products we distribute consist of: (i) equipment, including residential central air conditioners ranging from 1-1/2 to 5 tons, gas, electric and oil furnaces ranging from 50,000 to 150,000 BTUs, commercial air conditioning and heating equipment and systems ranging from 1-1/2 to 25 tons and other specialized equipment, (ii) parts, including replacement compressors, evaporator coils, motors and other component parts and (iii) supplies, including thermostats, insulation material, refrigerants, ductwork, grills, registers, sheet metal, tools, copper tubing, concrete pads, tape, adhesives and other ancillary supplies.

Sales of HVAC equipment accounted for 61% and 60% of our revenues for the years ended December 31, 2011 and 2010, respectively. Sales of other HVAC products (currently sourced from more than 800 vendors) comprised 32% and 33% of our revenues for the years ended December 31, 2011 and 2010, respectively. Sales of commercial refrigeration products accounted for 7% of our revenues for both the years ended December 31, 2011 and 2010.

Distribution and Sales

At December 31, 2011, we operated from 542 locations, a vast majority of which are located in regions that we believe have favorable demographic trends. We maintain large inventories at each warehouse location and either deliver products to customers using one of our 666 trucks or a third party logistics provider, or we make products available for pick-up at the location nearest to the customer. We have approximately 725 commissioned salespeople, averaging more than 10 years of experience in the HVAC/R distribution industry.

The industry's largest markets for HVAC/R products are in the U.S. Sun Belt. Accordingly, the majority of our distribution locations are in the Sun Belt, with the highest concentrations in Florida and Texas. The Sun Belt markets have been a strategic focus of ours given the size of the markets, the reliance by homeowners and businesses on HVAC/R products to maintain a comfortable indoor environment, the population growth in the Sun Belt over the last 40 years, which has led to a substantial installed base requiring replacement, a shorter useful life for equipment given the hours of operation in the Sun Belt and the focus by utilities on consumer incentives designed to promote replacement of HVAC/R equipment in an effort to improve energy efficiency.

Markets

The table below identifies the number of our stores by location as of December 31, 2011:

Florida	100
Texas	92
California	38
North Carolina	38
Georgia	37
South Carolina	30
Tennessee	27
Virginia	21
Louisiana	18
Mississippi	13
New York	12
Alabama	10
Massachusetts	10
Maryland	8
Missouri	8
Arizona	7
Mexico	7
Puerto Rico	7
Arkansas	6
Connecticut	6
Kansas	6
Oklahoma	5
Utah	5
New Jersey	4
Maine	3
Colorado	2
Iowa	2
Kentucky	2
Nebraska	2
Nevada	2
New Hampshire	2
Pennsylvania	2
Rhode Island	2
South Dakota	2
Illinois	1
Indiana	1
New Mexico	1
North Dakota	1
Vermont	1
West Virginia	1
Total	**542**

Joint Ventures with Carrier Corporation

In 2009, we formed a joint venture with Carrier, which we refer to as “Carrier Enterprise I”, in which Carrier contributed 95 of its company-owned locations in 13 U.S. Sun Belt states and Puerto Rico and its export division in Miami, Florida and we contributed 15 locations that distributed Carrier products. We have a 60% controlling interest in Carrier Enterprise I, Carrier has a 40% noncontrolling interest and we have options to purchase from Carrier up to an additional 20% interest in Carrier Enterprise I (10% in July 2012 and 10% in July 2014).

In 2011, we formed a second joint venture with Carrier and completed two additional transactions. In April 2011, Carrier contributed 28 of its company-owned locations in eight Northeast U.S states and we contributed 14 locations in the Northeast U.S. In August 2011, we purchased Carrier’s distribution operations in Mexico, which included seven locations (we refer to the foregoing Northeast locations and the Mexico operations together as “Carrier Enterprise II”). We have a 60% controlling interest in Carrier Enterprise II and Carrier has a 40% noncontrolling interest. Neither we nor Carrier have any options to purchase additional ownership interests in Carrier Enterprise II.

Combined, the joint ventures with Carrier represented 55% of our revenues in 2011. Refer to Note 8 to our consolidated financial statements for a discussion of acquisitions.

The business and affairs of the joint ventures are controlled, directed and managed exclusively by Carrier Enterprise I's and Carrier Enterprise II's board of directors (the "Boards") pursuant to the related operating agreement. The Boards have full, complete and exclusive authority, power and discretion to manage and control the business, property and affairs of the joint ventures and to make all decisions regarding those matters and to perform any and all other acts or activities customary or incident to the management of the joint ventures, including approving distributions. The Boards are composed of five directors, of whom three directors represent our 60% controlling interest and two directors represent Carrier's 40% noncontrolling interest. Matters presented to the Boards for vote are considered approved or consented to upon the receipt of the affirmative vote of at least a majority of all directors entitled to vote with the exception of certain governance matters, which require joint approval.

Customers and Customer Service

Air conditioning and heating contractors and dealers that install HVAC/R products in homes and businesses must be licensed given the highly-regulated nature of the products, refrigerant, natural gas and building and zoning requirements. We currently serve more than 50,000 contractors and dealers who service the replacement and new construction markets for residential and light commercial central air conditioning, heating and refrigeration systems. No single customer in 2011, 2010 or 2009 represented more than 1% of our consolidated revenues. We focus on providing products where and when the customer needs them, technical support by phone or on site as required, and quick and efficient service at our locations. Increased customer convenience is also provided through e-commerce, which allows customers to access information online 24 hours a day, seven days a week to search for desired products, verify inventory availability, obtain pricing, place orders, check order status, schedule pickup or delivery times and make payments. We believe we compete successfully with other distributors primarily on the basis of an experienced sales organization, strong service support, maintenance of well-stocked inventories, and density of warehouse locations, high quality reputation, broad product lines and the ability to foresee customer demand for new products.

Key Suppliers

We have significant relationships with Carrier, Rheem, Goodman, Nordyne, Emerson, Manitowoc and DuPont, each of which is a leading manufacturer of HVAC/R products in the U.S. Each manufacturer has a well-established reputation of producing high-quality, competitively-priced products. The manufacturers' current product offerings, quality, serviceability and brand-name recognition allow us to operate favorably relative to our competitors. To maintain brand-name recognition, the manufacturers of air conditioning and heating equipment provide national advertising and participate with us in cooperative advertising programs and promotional incentives that are targeted to both dealers and end-users. We estimate that the replacement market for air conditioning products currently accounts for approximately 85% of industry sales in the U.S., and we expect this percentage to increase as units installed in the past 20 years wear out and get replaced or updated to more energy-efficient models.

Approximately 71%, 72% and 66% of purchases in 2011, 2010 and 2009, respectively, were made from the four key HVAC/R equipment suppliers; with the largest supplier, Carrier and its affiliates, accounting for 54%, 52% and 41% of all purchases made in 2011, 2010 and 2009, respectively. A significant interruption by Carrier, or the other suppliers, in the delivery of products could impair our ability to maintain current inventory levels and could adversely affect our financial results. Future financial results are also materially dependent upon the continued market acceptance of these manufacturers' products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards. See "Business Risk Factors" in Item 1A.

Distribution Agreements

We have entered into distribution agreements with several of our key suppliers either on an exclusive or non-exclusive basis for terms generally ranging from one to ten years. Certain of the distribution agreements contain provisions that restrict or limit the sale of competitive products in the geographic markets served. Other than in the geographic markets where such restrictions and limitations apply, we may distribute other manufacturers' lines of air conditioning or heating equipment.

We maintain separate and distinct trade name and distribution agreements with Carrier. These agreements provide us the use of various Carrier brand names and distribution rights for certain Carrier HVAC brands and products on an exclusive basis in specified territories. The trade name and distribution agreements are not subject to a stated term or expiration date. See *Supplier Concentration* in "Business Risk Factors" in Item 1A.

Seasonality

Sales of residential central air conditioners, heating equipment and parts and supplies have historically been seasonal. See "Business Risk Factors" in Item 1A.

Competition

We operate in highly competitive environments. See "Business Risk Factors" in Item 1A.

Employees

We had approximately 4,300 employees as of December 31, 2011, substantially all of whom are non-union employees. Most of these employees are employed on a full-time basis, and our relations with employees are good.

Order Backlog

Order backlog is not a material aspect of our business and no material portion of our business is subject to government contracts.

Government Regulations, Environmental and Health and Safety Matters

Our business is subject to federal, state and local laws and regulations relating to the storage, handling, transportation and release of hazardous materials into the environment. These laws and regulations include the Clean Air Act, relating to minimum energy efficiency standards of HVAC systems and the production, servicing and disposal of certain ozone-depleting refrigerants used in such systems, including those established at the Montreal Protocol in 1992 concerning the phase-out of the production of CFC-based refrigerants on January 1, 2010 for use in new equipment. We are also subject to regulations concerning the transport of hazardous materials, including regulations adopted pursuant to the Motor Carrier Safety Act of 1990. Our operations are also subject to health and safety requirements including the Occupational, Safety and Health Act. We believe that the business is operated in compliance with all applicable federal, state and local provisions relating to the protection of the environment, transport of hazardous materials and health and safety requirements. In addition, we could be affected by future laws or regulations imposed in response to concerns over climate change.

Financial Information About Geographic Areas

Our operations are primarily within the U.S. and Puerto Rico. Products are sold on an export-only basis to portions of Latin America and the Caribbean Basin and export sales were approximately 4% of total revenues in 2011, 2010 and 2009. In July 2011, we acquired seven locations in Mexico that represented approximately 1% of consolidated revenues for 2011.

ADDITIONAL INFORMATION

Filings with the Securities and Exchange Commission

As a public company, we regularly file reports and proxy statements with the Securities and Exchange Commission ("SEC"). These reports are required by the Securities Exchange Act of 1934, as amended, and include, but are not limited to:

- annual reports on Form 10-K;
- quarterly reports on Form 10-Q;
- current reports on Form 8-K and
- proxy statements on Schedule 14A.

The public may read and copy any of the materials we file with the SEC at the SEC's Public Reference Room at 100 F. Street N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site at www.sec.gov that contains the reports, proxy and information statements, and other information that we file electronically.

We make available free of charge access to our SEC filings as soon as reasonably practicable after such materials are electronically filed with or furnished to the SEC through our website at www.watsco.com. Other reports filed with the SEC under the Securities Exchange Act of 1934, as amended, are also available including the proxy statements and reports filed by officers and directors under Section 16(a) of that Act. These reports may be found on our website by selecting the option entitled "SEC Filings" under the "Investor Relations" section of the website. The reference to our website address does not constitute incorporation by reference of the information contained on our website and none of such information is part of this report.

ITEM 1A. RISK FACTORS

Business Risk Factors

Supplier Concentration

Our purchases from Carrier and its affiliates comprised 54% of all purchases made during 2011. Significant relationships currently exist with four of the seven major HVAC equipment manufacturers; and purchases from these equipment suppliers, including Carrier, comprised 71% of all purchases made in 2011. Given the significant concentration of our supply chain, particularly with Carrier, any significant interruption by the manufacturers or a termination of a distribution agreement could temporarily disrupt the operations of certain subsidiaries. Additionally, our operations are also materially dependent upon the continued market acceptance of these manufacturers' products and their ability to continue to manufacture products that are competitive and that comply with laws relating to environmental and efficiency standards. Our inability to obtain products from one or more of these manufacturers or a decline in market acceptance of these manufacturers' products could have a material adverse effect on our results of operations, cash flows and liquidity.

We maintain separate and distinct trade name distribution agreements with Carrier. These agreements provide us the use of various Carrier brand names and distribution rights for certain Carrier HVAC brands and products on an exclusive basis in specified territories. The trade name and distribution agreements are not subject to a stated term or expiration date.

We also maintain distribution agreements with our other key equipment suppliers, either on an exclusive or non-exclusive basis, for terms generally ranging from one to ten years. Certain of the distribution agreements contain provisions that restrict or limit the sale of competitive products in the markets served. Other than the markets where such restrictions and limitations may apply, we may distribute other manufacturers' lines of air conditioning or heating equipment.

Risks Inherent in Acquisitions

As part of our strategy, we intend to pursue additional acquisitions of complementary businesses. If we complete future acquisitions and/or joint ventures, we may be required to incur or assume additional debt and/or issue additional shares of our common stock as consideration, which will dilute our existing shareholders' ownership interest in us and may affect our results of operations. Growth through acquisitions involves a number of risks, including, but not limited to, the following:

- the ability to identify and consummate complementary acquisition candidates;
- the successful operation and/or integration of acquired companies in an effective manner;
- diversion of management's attention from other daily functions;
- issuance by us of equity securities that would dilute ownership of our existing shareholders;
- incurrence and/or assumption of significant debt and contingent liabilities; and
- possible loss of key employees and/or customer relationships of the acquired companies.

In addition, acquired companies may have liabilities that we failed, or were unable, to discover in the course of performing due diligence investigations. We cannot assure you that the indemnification granted to us by sellers of acquired companies will be sufficient in amount, scope or duration to fully offset the possible liabilities associated with businesses or properties that we assume upon consummation of an acquisition. We may learn additional information about our acquired businesses that materially adversely affect us, such as unknown or contingent liabilities and liabilities related to compliance with applicable laws. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business.

Failure to successfully manage the operational challenges and risks associated with, or resulting from, acquisitions could adversely affect our results of operations, cash flows and liquidity.

Competition

We operate in highly competitive environments. We compete with a number of distributors and also with several air conditioning and heating equipment manufacturers that distribute a significant portion of their products through their own distribution organizations in certain markets. Competition within any given geographic market is based upon product availability, customer service, price and quality. Competitive pressures or other factors could cause our products or services to lose market acceptance or result in significant price erosion, all of which would have a material adverse effect on our results of operations, cash flows and liquidity.

Decline in Economic Conditions

The global and U.S. economy experienced a significant contraction in 2008, including sharply reduced availability of business and consumer credit. We rely on the capital markets as well as the credit markets to meet our financial commitments and short-term liquidity needs if internal funds are not available from our operations. Disruptions in the capital and credit market, such as those that began in 2008, could adversely affect our access to liquidity needed for our business. Any long-term disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged. Such measures could include reducing or eliminating dividend payments, deferring capital expenditures and reducing or eliminating discretionary uses of cash.

A decline in economic conditions and lack of availability of business and consumer credit could have an adverse effect on our business. Any capital and credit market disruption could cause broader economic downturns, which may lead to reduced demand for our products and increased incidence of customers' inability to pay their accounts. Further, bankruptcies or similar events by customers may cause us to incur bad debt expense at levels higher than historically experienced. Also, our suppliers may potentially be impacted causing disruption or delay of product availability. These events would adversely impact our results of operations, cash flows and financial position. Additionally, if financial institutions that have extended credit commitments to us are adversely affected by the conditions of the capital and credit markets, they may become unable to fund borrowings under their credit commitments to us, which could have an adverse impact on our financial condition and our ability to borrow funds, if needed, for working capital, acquisitions, capital expenditures and other corporate purposes.

Seasonality

Sales of residential central air conditioners, heating equipment and parts and supplies have historically been seasonal. Furthermore, profitability can be impacted favorably or unfavorably based on the severity or mildness of weather patterns during summer or winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets is fairly even during the year except for dependence on housing completions and related weather and economic conditions.

Dependence on Key Personnel

Much of our future success depends on the skills, experience and services of senior management personnel. The loss of any of our executive officers or other key senior management personnel could harm our business. We must continue to recruit, retain and motivate management and other employees sufficiently in order to both maintain our current business and to execute our strategic initiatives. Our success also depends substantially on the contributions and abilities of our store employees who we rely on to give customers a superior in-store experience. Accordingly, our performance depends on our ability to recruit and retain high quality employees to work in and manage our stores. If we are unable to recruit, retain and motivate employees sufficiently in order to maintain our current business and support our projected growth and expansion, our business and financial performance may be adversely affected.

Foreign Currency Exchange Rate Fluctuations

Our operations in Mexico generally consider their functional currency to be the U.S. dollar since the majority of their transactions are denominated in U.S dollars. Foreign currency exchange rates and fluctuations may have an impact on transactions denominated in Mexican Pesos, and therefore, could adversely affect our financial performance.

General Risk Factors

Goodwill and Intangibles

At December 31, 2011, goodwill and intangibles represented approximately 31% of our total assets. The recoverability of goodwill and indefinite lived intangibles is evaluated at least annually and when events or changes in circumstances indicate that the carrying amounts may not be recoverable. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting unit and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. The estimates of fair value of our reporting unit and indefinite lived intangibles are based on the best information available as of the date of the assessment and incorporates management's assumptions about expected future cash flows and contemplates other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment or market conditions. We cannot assure you that we will not suffer material impairments to goodwill in the future.

Risks Related to Insurance Coverage

We carry general liability, comprehensive property damage, workers' compensation, health benefits and other insurance coverage that management considers adequate for the protection of its assets and operations. There can be no assurance, however, that the coverage limits of such policies will be adequate to cover losses and expenses for lawsuits brought or which may be brought against us. A loss in excess of insurance coverage could have a material adverse effect on our financial position and/or profitability. Certain self-insurance risks for casualty insurance programs and health benefits are retained and reserves are established based on claims filed and estimates of claims incurred but not yet reported. Assurance cannot be provided that actual claims will not exceed present estimates. Exposure to catastrophic losses has been limited by maintaining excess and aggregate liability coverage and implementing stop-loss control programs.

Control by Existing Shareholder

As of December 31, 2011, Albert H. Nahmad, our Chairman and Chief Executive Officer, a limited partnership and various trusts controlled by him, collectively had beneficial ownership of approximately 54% of the combined voting power of our outstanding Common and Class B common stock. Based on Mr. Nahmad's stock ownership and the stock ownership of the limited partnership and various trusts controlled by him, Mr. Nahmad has the voting power to elect all but three members of our nine-person Board of Directors and to control most corporate actions requiring shareholder approval.

Information about Forward-Looking Statements

This Form 10-K contains or incorporates by reference statements that are not historical in nature and that are intended to be, and are hereby identified as, "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995, including statements regarding, among other items, (i) economic conditions, (ii) business and acquisition strategies, (iii) potential acquisitions and/or joint ventures, (iv) financing plans and (v) industry, demographic and other trends affecting

our financial condition or results of operations. These forward-looking statements are based largely on management's current expectations and are subject to a number of risks, uncertainties and changes in circumstances, certain of which are beyond their control.

Actual results could differ materially from these forward-looking statements as a result of several factors, including, but not limited to:

- general economic conditions;
- competitive factors within the HVAC/R industry;
- effects of supplier concentration;
- fluctuations in certain commodity costs;
- consumer spending;
- consumer debt levels;
- new housing starts and completions;
- capital spending in the commercial construction market;
- access to liquidity needed for operations;
- seasonal nature of product sales;
- weather conditions;
- insurance coverage risks;
- federal, state and local regulations impacting our industry and products;
- prevailing interest rates;
- refinancing of revolving credit agreements with satisfactory terms;
- foreign currency exchange rate fluctuations; and
- the continued viability of our business strategy.

In light of these uncertainties, there can be no assurance that the forward-looking information contained herein will be realized or, even if substantially realized, that the information will have the expected consequences or effects on us or our business or operations. A discussion of certain of these risks and uncertainties that could cause actual results to differ materially from those contained in such forward-looking statements is set forth in this Item 1A and included in our 2011 Annual Report in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations," which section is incorporated in this Annual Report on Form 10-K by reference. Forward-looking statements speak only as of the date the statements were made. We assume no obligation to update forward-looking information or the discussion of such risks and uncertainties to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except to the extent required by applicable law.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our main properties include warehousing and distribution facilities, trucks and administrative office space.

Warehousing and Distribution Facilities

At December 31, 2011, we operated 542 warehousing and distribution facilities across 38 states, Mexico and Puerto Rico, having an aggregate of approximately 13.1 million square feet of space, of which approximately 12.7 million square feet is leased. The majority of these leases are for terms of three to five years. We believe that our facilities are generally sufficient to meet our present operating needs.

Trucks

At December 31, 2011, we operated 666 ground transport vehicles, including delivery and pick-up trucks, vans and tractors. Of this number, 352 trucks were leased and the rest were owned. We believe that the present size of our truck fleet is adequate to support our operations.

Administrative Facility

Senior management and support staff are located at our corporate headquarters in Miami, Florida in approximately 6,000 square feet of owned space.

ITEM 3. LEGAL PROCEEDINGS

We are involved in litigation incidental to the operation of our business. We vigorously defend all matters in which we or our subsidiaries are named defendants and, for insurable losses, maintain significant levels of insurance to protect against adverse judgments, claims or assessments that may affect us. Although the adequacy of existing insurance coverage and the outcome of any legal proceedings cannot be predicted with certainty, based on the current information available, we do not believe the ultimate liability associated with any known claims or litigation will have a material adverse impact to our financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Exchange Information, Common Share Price Performance and Dividends

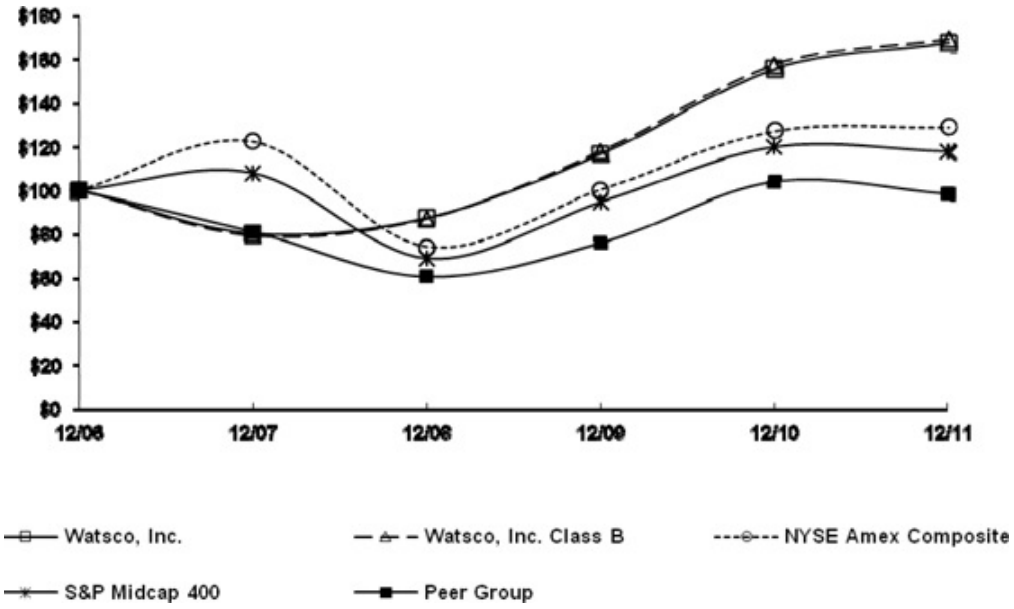
Our Common stock is listed on the New York Stock Exchange and the Professional Segment of NYSE Euronext in Paris under the ticker symbol WSO and our Class B common stock is listed on the NYSE Amex under the ticker symbol WSOB.

Our 2011 Annual Report contains "Information on Common Stock," which identifies the markets in which our common stocks are being traded and contains the high and low sales prices and dividend information for the years ended December 31, 2011 and 2010, and is incorporated herein by reference.

Shareholder Return Performance

The following graph compares the cumulative five-year total return attained by holders of our Common stock and Class B common stock relative to the cumulative total returns of the NYSE Amex Composite index, the S&P MidCap 400 index and a customized peer group of companies, which are: Beacon Roofing Supply, Inc., Interline Brands, Inc., Lennox International Inc., Pool Corp and WESCO International, Inc. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock, in each index and in the peer group on December 31, 2006 and its relative performance is tracked through December 31, 2011.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Watsco, Inc., the NYSE Amex Composite Index,
the S&P MidCap 400 Index and a Peer Group



*$100 invested on 12/31/06 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.
The stock price performance included in this graph is not necessarily indicative of future stock price performance.

	12/06	12/07	12/08	12/09	12/10	12/11
Watsco, Inc.	100.00	80.07	87.23	116.27	155.25	167.29
Watsco, Inc. Class B	100.00	78.95	86.85	117.48	157.15	168.91
NYSE Amex Composite	100.00	122.46	73.97	100.19	127.31	128.98
S&P MidCap 400	100.00	107.98	68.86	94.60	119.80	117.72
Peer Group	100.00	81.11	60.45	75.90	103.91	98.30

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

During the quarter ended December 31, 2011, there were no purchases of our equity securities made by us or on our behalf by any “affiliated purchaser” (as such term is defined in Rule 10b-18(a)(3) of the Securities Exchange Act of 1934, as amended). Under our current program, which began in September 1999 and which authorizes the repurchase of up to 7.5 million shares of our common stock, shares may be purchased in the open market or in privately negotiated transactions. Through December 31, 2011, 6.4 million shares of common stock have been repurchased since the inception of the program. The repurchase of the remaining 1.1 million shares authorized for repurchase is subject to certain restrictions included in our revolving credit agreements.

Dividends

Cash dividends per share of $2.23, $2.04 and $1.89 for both Common and Class B common stock were paid in 2011, 2010 and 2009, respectively. Future dividends will be declared and paid at the sole discretion of the Board of Directors and will depend upon such factors as cash flow generated by operations, profitability, financial condition, cash requirements, restrictions under our revolving credit agreements, future prospects and other factors deemed relevant by our Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

Our 2011 Annual Report contains "Selected Consolidated Financial Data" and is incorporated herein by reference.

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

Our 2011 Annual Report contains "Management's Discussion and Analysis of Financial Condition and Results of Operations" and is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our 2011 Annual Report contains "Quantitative and Qualitative Disclosures about Market Risk" and is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our 2011 and 2010 Consolidated Balance Sheets and other consolidated financial statements for the years ended December 31, 2011, 2010 and 2009, together with the report thereon of KPMG LLP dated February 29, 2012 in our 2011 Annual Report are incorporated herein by reference.

The 2011 and 2010 unaudited Selected Quarterly Financial Data appearing in our 2011 Annual Report is incorporated herein by reference.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended ("the Exchange Act")) that are, among other things, designed to ensure that information required to be disclosed by us under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer ("CEO"), Senior Vice President ("SVP") and Chief Financial Officer ("CFO"), to allow for timely decisions regarding required disclosure and appropriate SEC filings.

Our management, with the participation of our CEO, SVP and CFO, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on that evaluation, our CEO, SVP and CFO concluded that our disclosure controls and procedures were effective, at a reasonable assurance level, at and as of such date.

Management's Report on Internal Control over Financial Reporting

Our 2011 Annual Report contains "Management's Report on Internal Control over Financial Reporting" and the report thereon of KPMG LLP dated February 29, 2012, and each is incorporated herein by reference .

Changes in Internal Control over Financial Reporting

We are continuously seeking to improve the efficiency and effectiveness of our operations and of our internal controls. This results in refinements to processes throughout the Company. However, there have been no changes in internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In accordance with the rules and regulations of the SEC, we have not yet assessed the internal control over financial reporting of the 35 locations added by Carrier Enterprise II, which collectively represented approximately 11% of our total consolidated assets at December 31, 2011 and approximately 6% of our consolidated revenues for the year ended December 31, 2011. From the respective acquisition dates to December 31, 2011, the processes and systems of Carrier Enterprise II did not impact the internal controls over financial reporting for our other consolidated subsidiaries.

ITEM 9B. OTHER INFORMATION

None.

PART III

This part of Form 10-K, which includes Items 10 through 14, is omitted because we will file definitive proxy material pursuant to Regulation 14A not more than 120 days after the close of our most recently ended fiscal year, which proxy material will include the information required by Items 10 through 14 and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements. Our consolidated financial statements are incorporated by reference from our 2011 Annual Report.

(2) Financial Statement Schedules. The schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

(3) Exhibits. The following list of exhibits includes exhibits submitted with this Form 10-K as filed with the SEC and those incorporated by reference to other filings.

3.1	Watsco's Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2001 and incorporated herein by reference).
3.2	Watsco's Articles of Amendment to the Amended and Restated Articles of Incorporation (filed as Exhibit 3.1 to the Current Report on Form 8-K on June 4, 2009 and incorporated herein by reference).
3.3	Watsco's Bylaws (filed as Exhibit 3.2 to the Annual Report on Form 10-K for the fiscal year ended January 31, 1985 and incorporated herein by reference).
3.4	Watsco's Amendment to the Bylaws (filed as Exhibit 99.1 to the Current Report on Form 8-K on April 1, 2009 and incorporated herein by reference).
4.1	Specimen form of Class B Common Stock Certificate (filed as Exhibit 4.6 to the Registration Statement on Form S-1 (No. 33-56646) and incorporated herein by reference).
4.2	Specimen form of Common Stock Certificate (filed as Exhibit 4.4 to the Annual Report on Form 10-K for the fiscal year ended December 31, 1994 and incorporated herein by reference).
10.1	Watsco, Inc. Amended and Restated 1991 Stock Option Plan (filed as Exhibit 4.23 to the Registration Statement on Form S-8 (333-82011) and incorporated herein by reference). *
10.2	Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.20 to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996 and incorporated herein by reference). *
10.3	First Amendment dated January 1, 2001 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.13 to the Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference). *
10.4	Second Amendment dated January 1, 2002 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.15 to the Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference). *
10.5	Third Amendment dated January 1, 2003 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.11 to the Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference). *
10.6	Fourth Amendment dated January 1, 2004 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2004 and incorporated herein by reference). *
10.7	Fifth Amendment dated January 1, 2005 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2005 and incorporated herein by reference). *

10.8	Sixth Amendment dated January 1, 2006 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.16 to the Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference). *
10.9	Watsco, Inc. 2001 Incentive Compensation Plan (filed as Exhibit I to the Definitive Proxy Statement for the year ended December 31, 2005 and incorporated herein by reference). *
10.10	Seventh Amendment dated January 1, 2007 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference). *
10.11	Third Amended and Restated 1996 Qualified Employee Stock Purchase Plan dated February 27, 2007 (filed as Exhibit 1 to the Definitive Proxy Statement on Schedule 14A in respect of our 2007 Annual Meeting of Shareholders and incorporated herein by reference). *
10.12	Revolving Credit Agreement dated as of August 3, 2007, by and among Watsco, Inc., as Borrower, the Lenders from Time to Time Party Thereto, Bank of America, N.A., as Administrative Agent (filed as Exhibit 10.1 to Amendment No. 1 to the Current Report on Form 8-K/A on July 23, 2010 and incorporated herein by reference).
10.13	Eighth Amendment dated January 1, 2008 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2008 and incorporated herein by reference). *
10.14	Ninth Amendment dated December 10, 2008 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference). *
10.15	Tenth Amendment dated January 1, 2009 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2009 and incorporated herein by reference). *
10.16	Watsco, Inc. Amended and Restated 2001 Incentive Compensation Plan (filed as Appendix A to the Definitive Proxy Statement for the year ended December 31, 2008 and incorporated herein by reference). *
10.17	Credit Agreement dated as of July 1, 2009, by and among Carrier Enterprise, LLC, as Borrower, the Lenders that are Signatories Hereto, Wells Fargo Bank, N.A., as Administrative Agent (filed as Exhibit 10.1 to Amendment No. 2 to the Current Report on Form 8-K/A on July 23, 2010 and incorporated herein by reference).
10.18	Revolving Credit Agreement dated as of August 3, 2007 as amended by Amendment No. 1 to Revolving Credit Agreement dated July 1, 2009, by and among Watsco, Inc., as Borrower, the Lenders from Time to Time Party Thereto, Bank of America, N.A., as Administrative Agent (filed as Exhibit 10.1 to the Current Report on Form 8-K on July 23, 2010 and incorporated herein by reference).
10.19	Purchase and Contribution Agreement dated May 3, 2009 by and between Carrier Corporation and Watsco, Inc. (filed as Exhibit 2.1 to the Current Report on Form 8-K on May 7, 2009 and incorporated herein by reference).
10.20	Amendment to Purchase and Contribution Agreement dated as of June 29, 2009 by and between Carrier Corporation and Watsco, Inc. (filed as Exhibit 2.2 to the Current Report on Form 8-K on July 8, 2009 and incorporated herein by reference).
10.21	Operating Agreement of Carrier Enterprise, LLC (Amended and Restated), dated as of July 1, 2009 (filed as Exhibit 10.2 to the Current Report on Form 8-K on July 8, 2009 and incorporated herein by reference).
10.22	Shareholder Agreement by and between Watsco, Inc. and Carrier Corporation, dated as of July 1, 2009 (filed as Exhibit 10.3 to the Current Report on Form 8-K on July 8, 2009 and incorporated herein by reference).
10.23	Eleventh Amendment dated January 1, 2010 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2010 and incorporated herein by reference). *

10.24	Twelfth Amendment dated January 1, 2011 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad (filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the period ended March 31, 2011 and incorporated herein by reference). *
10.25	Purchase and Contribution Agreement dated March 18, 2011 by and between Carrier Corporation and Watsco, Inc. (filed as Exhibit 2.1 to the Current Report on Form 8-K on March 24, 2011 and incorporated herein by reference).
10.26	Fourth Amended and Restated 1996 Qualified Employee Stock Purchase Plan dated April 18, 2011 (filed as Appendix A to the Definitive Proxy Statement on Schedule 14A in respect of our 2011 Annual Meeting of Shareholders and incorporated by reference herein). *
10.27	Third Amendment to Credit Agreement, dated as of July 26, 2011, by and among Carrier Enterprise, LLC, as Borrower, the Lenders party thereto, Wells Fargo Bank, N.A., as Administrative Agent, and Carrier (Puerto Rico), Inc., as Guarantor (filed as Exhibit 10.1 to the Current Report on Form 8-K on July 29, 2011 and incorporated herein by reference).
10.28	Amended and Restated Shareholder Agreement by and between Watsco, Inc. and Carrier Corporation, dated as of January 24, 2012. #
10.29	Operating Agreement of Carrier Enterprise Northeast, LLC, dated as of April 30, 2011. #
13	2011 Annual Report to Shareholders (with the exception of the information incorporated by reference into Items 1, 5, 6, 7 and 8 of this Form 10-K, the 2011 Annual Report to Shareholders is provided solely for the information of the SEC and is not deemed “filed” as part of this Form 10-K). #
21	Subsidiaries of the Registrant. #
23.1	Consent of Independent Registered Public Accounting Firm – KPMG LLP. #
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #
31.2	Certification of Senior Vice President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #
31.3	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. #
32.1	Certification of Chief Executive Officer, Senior Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. +
101.INS	XBRL Instance Document. **
101.SCH	XBRL Taxonomy Extension Schema Document. **
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. **
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. **
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. **
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. **

\# filed herewith.
\+ furnished herewith.
* Management contract or compensation plan or arrangement.
** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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SIGNATURES

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

WATSCO, INC.

February 29, 2012 By: /s/ Albert H. Nahmad
Albert H. Nahmad, President

February 29, 2012 By: /s/ Ana M. Menendez
Ana M. Menendez, Chief Financial Officer

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

SIGNATURE	TITLE	DATE
/S/ ALBERT H. NAHMAD **Albert H. Nahmad**	Chairman of the Board and Chief Executive Officer (principal executive officer)	February 29, 2012
/S/ BARRY S. LOGAN **Barry S. Logan**	Director and Senior Vice President	February 29, 2012
/S/ ANA M. MENENDEZ **Ana M. Menendez**	Chief Financial Officer (principal accounting officer and principal financial officer)	February 29, 2012
/S/ CESAR L. ALVAREZ **Cesar L. Alvarez**	Director	February 29, 2012
/S/ DENISE DICKINS **Denise Dickins**	Director	February 29, 2012
/S/ STEVEN R. FEDRIZZI **Steven R. Fedrizzi**	Director	February 29, 2012
/S/ PAUL F. MANLEY **Paul F. Manley**	Director	February 29, 2012
/S/ BOB L. MOSS **Bob L. Moss**	Director	February 29, 2012
/S/ Aaron J. Nahmad **Aaron J. Nahmad**	Director and Vice President of Strategy and Innovation	February 29, 2012
/S/ GEORGE P. SAPE **George P. Sape**	Director	February 29, 2012

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Exhibit Index

Exhibit Number	Description
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21	Subsidiaries of the Registrant.
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31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Senior Vice President pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer, Senior Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Exhibit 10.28

AMENDED AND RESTATED SHAREHOLDER AGREEMENT

by and between

WATSCO, INC.

and

THE SHAREHOLDER IDENTIFIED ON THE SIGNATURE PAGE HERETO
dated as of January 24, 2012

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ARTICLE V

REPRESENTATIONS AND WARRANTIES OF SHAREHOLDER

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

ARTICLE VII

TERMINATION

ARTICLE VIII

MISCELLANEOUS

AMENDED AND RESTATED SHAREHOLDER AGREEMENT

This Shareholder Agreement (this "Agreement") is entered into as of this 24th day of January, 2012, by and between Watsco, Inc., a Florida corporation (the "Company"), and the Shareholder identified on the signature page hereto.

WITNESSETH:

WHEREAS, the Company has entered into that certain Purchase and Contribution Agreement, dated as of May 3, 2009 (the " Purchase and Contribution Agreement");

WHEREAS, the Company and Shareholder are entering into this Agreement in consideration, in part, for the Company and Shareholder entering into, and consummating the transactions contemplated by, the Purchase and Contribution Agreement;

WHEREAS, as of the date of this Agreement and as a result of the consummation of the transactions contemplated by the Purchase and Contribution Agreement, Shareholder owns of record as of the date hereof, that number of shares of Capital Stock set forth opposite the name of Shareholder on Annex I attached hereto and incorporated herein by reference; and

WHEREAS, each of the Company and Shareholder are desirous of entering into this Agreement, upon the terms and conditions contained hereinafter.

NOW, **THEREFORE,** in consideration of the foregoing and the mutual premises, representations, warranties, covenants and agreements contained herein, and for good and valuable consideration, the receipt and sufficiency of which is hereby agreed to and acknowledged by the parties hereto, the parties hereto, intending to be legally bound, hereby agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

Section 1.1 Certain Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

(a) "Affiliate" shall mean, with respect to a specified Person, any Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person. As used in this definition, and elsewhere herein in relation to control of Affiliates, the term "control" means the possession, directly or indirectly, of the power to substantially direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, as director or manager, as trustee or executor, by contract or credit arrangement or otherwise. For the avoidance of doubt, neither the Company nor any of its Subsidiaries shall be deemed an Affiliate of a Shareholder Group Member for any purpose hereunder, and no Shareholder Group Member shall be deemed an Affiliate of the Company or any of its Subsidiaries for any purpose hereunder.

(b) "Agreement" shall have the meaning ascribed to such term in the caption to this Agreement.

(c) "AMEX" shall mean the American Stock Exchange.

(d) "Ancillary Agreements" shall have the meaning ascribed to such term in the Purchase and Contribution Agreement.

(e) "Beneficially Own" shall have the meaning ascribed to such term in Rule 13d-3 (as in effect as of the date hereof) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") (including, but not limited to the entitlement to dispose of (or to direct the disposition of) and to vote (or to direct the voting of), and the right to acquire beneficial ownership of within sixty (60) days). For purposes of this Agreement, the terms "beneficially owns" and "beneficially owned" shall have correlative meanings.

(f) "Board" shall mean the Board of Directors of the Company.

(g) "Capital Stock" shall mean shares of the Company's common stock, par value $.50 per share (the " Common Stock"), and shares of the Company's Class B common stock, par value $.50 per share (the " Class B Common Stock").

(h) "Carrier" shall mean Carrier Corporation.

(i) "Carrier Enterprises" shall mean Carrier Enterprises, LLC, a Delaware limited liability company.

(j) "Chosen Courts" shall have the meaning ascribed to such term in Section 8.7(b) of this Agreement.

(k) "Class B Common Stock" shall have the meaning ascribed to such term in the definition of "Capital Stock" set forth above.

(l) "Closing Date" shall have the meaning ascribed to such term in the Purchase and Contribution Agreement.

(m) "Commission" shall mean the Securities and Exchange Commission or any other federal agency administering the Securities Act.

(n) "Common Stock" shall have the meaning ascribed to such term in the definition of "Capital Stock" set forth above.

(o) "Company" shall have the meaning ascribed to such term in the caption to this Agreement.

(p) "Company Change of Control" shall mean a transaction or series of transactions (or the entry by the Company, its stockholders, or any of its Subsidiaries into an agreement to effect such a transaction or series of transactions) with the Company, its stockholders, or any of its Subsidiaries, on one hand, and any Person or group (within the

meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) on the other hand, with respect to (i) a merger, reorganization, share exchange, consolidation, business combination, recapitalization, dissolution, liquidation or similar transaction involving the Company or its Subsidiaries in which the shareholders of the Company immediately prior to such transaction shall own less than fifty percent (50%) of the total voting power of all shares of voting securities of the surviving entity (or its ultimate parent) outstanding immediately after such transaction, (ii) any purchase of an equity interest (including by means of a tender or exchange offer) resulting in any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) beneficially owning (within the meaning of Rule 13d-3 under the Exchange Act, or any successor provision) greater than a fifty percent (50%) of the total voting power in the Company, other than, in each case, Mr. Albert Nahmad and any Related Affiliate or (iii) any purchase of assets, securities or ownership interests resulting in any Person or group (within the meaning of Section 13(d)(3) or Section 14(d)(2) of the Exchange Act, or any successor provision), including any group acting for the purpose of acquiring, holding or disposing of securities (within the meaning of Rule 13d-5(b)(1) under the Exchange Act) owning greater than fifty percent (50%) of the consolidated assets of the Company and its Subsidiaries taken as a whole (including stock of the Company's Subsidiaries). A Company Change of Control shall also be deemed to have occurred if the Continuing Directors cease for any reason to constitute at least a majority of the Board.

(q) "Company Equity Securities" shall mean the equity securities of the Company, including shares of Capital Stock or other equity securities of the Company issuable upon exercise, conversion, exchange or redemption of any warrants, options, rights or other securities issued by the Company.

(r) "Continuing Director" shall mean (i) any member of the Board as of the date of this Agreement, (ii) any member of the Board who becomes such a member subsequent to the date of this Agreement whose nomination for election or election to the Board was recommended or approved by a majority of the individuals described in clause (i) and/or this clause (ii) then on the Board or (iii) any member of the Board with respect to whom votes by Albert Nahmad and/or any of his Family Members and/or Related Affiliates were sufficient for such member's election to the Board.

(s) "Control Solicitation" shall have the meaning ascribed to such term in Section 2.2(b) of this Agreement.

(t) "Covered Person" shall have the meaning ascribed to such term in Section 3.8(a) of this Agreement.

(u) "Demand Registration" shall have the meaning ascribed to such term in Section 3.1(b)(i) of this Agreement.

(v) "Dispute" shall have the meaning ascribed to such term in Section 8.7(a) of this Agreement.

(w) "Exchange Act" shall have the meaning ascribed to such term in the definition of "beneficially own."

(x) "Family Member" shall mean, with respect to Albert Nahmad, any spouse, child (including any child by adoption and any child as to whom Albert Nahmad or his spouse has legal custody), and grandchild (including by adoption) and/or their respective spouses.

(y) "Governmental Authority" shall mean any nation or country (including but not limited to the United States) and any commonwealth, territory or possession thereof and any political subdivision of any of the foregoing, including but not limited to courts, departments, commissions, boards, bureaus, agencies, ministries or other instrumentalities.

(z) "Holdback Period" shall mean with respect to any registered offering covered by this Agreement, (i) one hundred twenty (120) days after and during the ten (10) days before, the effective date of the related Registration Statement or, in the case of a takedown from a Shelf Registration Statement, ninety (90) days after the date of the prospectus supplement filed with the Commission in connection with such takedown and during such prior period (not to exceed ten (10) days) as the Company has given reasonable written notice to Shareholder or (ii) such shorter period as Shareholder, the Company and the underwriter of such offering, if any, shall agree.

(aa) "Issuer Free Writing Prospectus" shall mean an issuer free writing prospectus, as defined in Rule 433 under the Securities Act, relating to an offer of the Registrable Securities.

(bb) "Law" when described as being applicable to any Person, shall mean any and all laws (statutory, judicial or otherwise), ordinances, regulations, judgments, orders, directives, injunctions, writs, decrees or awards of any Governmental Authority, in each case as and to the extent applicable to such Person or such Person's business, operations or properties.

(cc) "Market Value" of a share of Common Stock or a share of Class B Common Stock, as the case may be, on any trading day means the last reported sale price, regular way, of a share of Common Stock or Class B Common Stock, as applicable, on such trading day or, in case there is no last reported sale price on such trading day, the average of the reported closing bid and ask prices, regular way, of a share of Common Stock or Class B Common Stock, as applicable, on such trading day, in either case on the principal stock exchange on which shares of Common Stock are traded, in the case of a share of Common Stock, and the principal stock exchange on which shares of Class B Common Stock are traded, in the Case of a share of Class B Common Stock. The Market Value of a share of Common Stock or Class B Common Stock on any day which is not a trading day on the applicable stock exchange shall be deemed to be the Market Value of a share of Common Stock or Class B Common Stock, as applicable, on the immediately preceding trading day. The "Market Value" of any other security shall have a correlative meaning.

(dd) "Mediation Termination" shall have the meaning ascribed to such term in Section 8.7(a) of this Agreement.

(ee) "Notices" shall have the meaning ascribed to such term in Section 8.2 of this Agreement.

(ff) "NYSE" shall mean the New York Stock Exchange.

(gg) "Ownership Limit" shall have the meaning ascribed to such term in Section 4.1(a) of this Agreement.

(hh) "Percentage Interest" as to a Person means the number of shares of Capital Stock that are owned or beneficially owned by such Person, expressed as a percentage of the total number of shares of Capital Stock actually outstanding.

(ii) "Person" shall mean any natural person, corporation, general partnership, limited partnership, limited liability company, joint venture, union, trust, association, court, agency, government, tribunal, instrumentality, commission, arbitrator, board, bureau or other entity or authority.

(jj) "Piggyback Registration" shall have the meaning ascribed to such term in Section 3.2(a) of this Agreement.

(kk) "Prospectus" shall mean the prospectus included in any Registration Statement (including a prospectus that discloses information previously omitted from a prospectus filed as part of an effective Registration Statement in reliance upon Rule 430A or Rule 430B promulgated under the Securities Act), as amended or supplemented by any prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement, any Issuer Free Writing Prospectus related thereto, and all other amendments and supplements to such prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such prospectus.

(ll) "Purchase and Contribution Agreement" shall have the meaning ascribed to such term in the recitals to this Agreement.

(mm) "Registration Expenses" shall have the meaning ascribed to such term in Section 3.4(a) of this Agreement.

(nn) "Registration Request" shall have the meaning ascribed to such term in Section 3.1(b)(i) of this Agreement.

(oo) "Registrable Securities" shall mean all shares of Capital Stock issued to Shareholder pursuant to the Purchase and Contribution Agreement and all shares of Common Stock issued to any Shareholder Group Member pursuant to the conversion of any shares of Class B Common Stock issued to Shareholder pursuant to the Purchase and Contribution Agreement; provided, that such shares will cease to be Registrable Securities when (i) they have been effectively registered or qualified for sale by a Prospectus filed under the Securities Act and

disposed of in accordance with the applicable Registration Statement, (ii) they have been sold to the public pursuant to Rule 144 or Rule 145 or other exemption from registration under the Securities Act, (iii) they have been sold (other than to another Shareholder Group Member) in a private transaction or other exemption from registration under the Securities Act or (iv) they have been acquired by the Company. In the event of a stock dividend or distribution, or any change in the Capital Stock by reason of any stock dividend or distribution, split-up, recapitalization, combination, exchange of shares or the like, the term "Registrable Securities" shall be deemed to refer to and include the Registrable Securities as well as all such stock dividends and distributions and any securities into which or for which any or all of the Registrable Securities may be changed or exchanged or which are received in such transaction.

(pp) "Registration Statement" shall mean the Prospectus and other documents filed with the Commission to effect a registration under the Securities Act.

(qq) "Related Affiliate" shall mean, with respect to Albert Nahmad, (a) a foundation or similar entity established by Albert Nahmad or any Family Member for the principal purpose of serving charitable goals which are controlled by Albert Nahmad and/or any one or more Family Members; (b) any trust and/or estate, the beneficiaries of which principally include Albert Nahmad, Family Members and/or the Persons named in clause (a); and (c) any corporation, limited liability company or partnership, the stockholders, members, managers or general or limited partners of which include only Albert Nahmad, Family Members and/or the Persons named in clauses (a) or (b).

(rr) "Restricted Transfer" shall have the meaning ascribed to such term in Section 4.4(a) of this Agreement

(ss) "Rule 144" shall mean Rule 144 under the Securities Act, as in effect from time to time.

(tt) "Rule 144A" shall mean Rule 144A under the Securities Act, as in effect from time to time.

(uu) "Rule 145" shall mean Rule 145 under the Securities Act, as in effect from time to time.

(vv) "Rule 415" shall mean Rule 415 under the Securities Act, as in effect from time to time.

(ww) "Rule 424" shall mean Rule 424 under the Securities Act, as in effect from time to time.

(xx) "Securities Act" shall mean the Securities Act of 1933, as amended.

(yy) "Selling Expenses" shall mean all underwriting discounts, selling commissions and transfer taxes applicable to the sale of Registrable Securities hereunder and any other Registration Expenses applicable to the sale of Registrable Securities hereunder required by Law to be paid by a selling shareholder.

(zz) "Shareholder" means Carrier.

(aaa) "Shareholder Group Member" means United Technologies Corporation, a Delaware corporation, and each of its Subsidiaries, including Shareholder.

(bbb) "Shareholder's Counsel" shall have the meaning ascribed to such term in Section 3.4(b) of this Agreement.

(ccc) "Shelf Demand Notice" shall have the meaning ascribed to such term in Section 3.1(a)(ii) of this Agreement.

(ddd) "Shelf Demand Offering" shall have the meaning ascribed to such term in Section 3.1(a)(ii) of this Agreement.

(eee) "Shelf Period" shall have the meaning ascribed to such term in Section 3.1(a)(i) of this Agreement.

(fff) "Shelf Registration" shall have the meaning ascribed to such term in Section 3.1(a)(i) of this Agreement.

(ggg) "Shelf Registration Statement" shall have the meaning ascribed to such term in Section 3.1(a)(i) of this Agreement.

(hhh) "Subject Shares" shall mean, with respect to any particular Person, the shares of Capital Stock beneficially owned by such Person (including, without limitation, any shares of Capital Stock set forth opposite the name of such Person in Annex I hereto), together with any other shares of Capital Stock (including the voting power with respect thereto) which are directly or indirectly acquired by such Person at any one or more times prior to the termination of this Agreement pursuant to the terms hereof. In the event of a stock dividend or distribution, or any change in the Capital Stock by reason of any stock dividend or distribution, split-up, recapitalization, combination, exchange of shares or the like, the term " Subject Shares" shall be deemed to refer to and include the Subject Shares as well as all such stock dividends and distributions and any securities into which or for which any or all of the Subject Shares may be changed or exchanged or which are received in such transaction.

(iii) "Subsidiary" shall mean, with respect to any Person, (i) any corporation fifty percent (50%) or more of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation is at the time owned by such Person, directly or indirectly through one or more Subsidiaries, and (ii) any other Person, including but not limited to a joint venture, a general or limited partnership or a limited liability company, in which such Person, directly or indirectly through one or more Subsidiaries, at the time owns at least fifty percent (50%) or more of the ownership interests entitled to vote in the election of managing partners, managers or trustees thereof (or other Persons performing such functions) or acts as the general partner, managing member, trustee (or Persons performing similar functions) of such other Person.

(jjj) "Suspension Period" shall have the meaning ascribed to such term in Section 3.1(c) of this Agreement.

ARTICLE II

VOTING AGREEMENT

Section 2.1 Agreement to Vote the Subject Shares.

(a) The parties hereto hereby agree that from and after the date hereof, for as long as the Percentage Interest of Shareholder exceeds five percent (5%), at any meeting of the Company's shareholders (or any adjournment or postponement thereof), however called, or in connection with any action by written consent or other action of the Company's shareholders, Shareholder shall vote (or cause to be voted) all of the Subject Shares beneficially owned by it and by Shareholder Group Members in the same proportion of votes cast for, against or abstain by all other holders of Capital Stock, except that at any meeting of the Company's shareholders (or any adjournment or postponement thereof), however called, or in connection with any action by written consent or other action of the Company's shareholders, pursuant to which holders of any class of Capital Stock are entitled to vote as a separate class, Shareholder shall vote (or cause to be voted) all of the shares of such class of Capital Stock beneficially owned by it and by Shareholder Group Members in the same proportion of votes cast for, against or abstain by all other holders of such class of Capital Stock. Any such vote shall be cast or consent shall be given in accordance with such procedures relating thereto so as to ensure that it is duly counted for purposes of determining that a quorum is present and for purposes of recording the results of such vote or consent. Shareholder agrees not to enter into any agreement or commitment with any Person the effect of which would violate or be inconsistent with the provisions and agreements set forth in this Article II. In order to enable Shareholder to comply with its obligations under this Section 2.1(a), the Company shall (prior to the first vote of the Company's shareholders subject to this Section 2.1(a)) develop, together with its proxy solicitor and/or transfer agent, a form of proxy, in form and substance reasonably satisfactory to Shareholder, to be used by Shareholder (and/or any other Shareholder Group Member, as applicable) to enable it to vote the Subject Shares in the manner required by this Section 2.1(a) at any meeting of the Company's shareholders (or any adjournment or postponement thereof), however called, or in connection with any action by written consent or other action of the Company's shareholders. For the avoidance of doubt, any vote of Shareholder (or any other Shareholder Group Member) pursuant to the proper use of such form of proxy shall be deemed to have been made in compliance with this Section 2.1(a).

(b) Notwithstanding anything contained in Section 2.1(a), Shareholder Group Members shall not be required to vote (or cause to be voted) any or all of the Subject Shares beneficially owned by the relevant Shareholder Group Members as provided in Section 2.1(a) with respect to:

(i) any merger, consolidation, combination, acquisition or sale of assets, reorganization or recapitalization, which, if consummated, would result in a Company Change of Control (except when the Company's proposal is to merge with its wholly-owned Subsidiary);

(ii) dissolution, liquidation or winding up involving the Company; and

(iii) any matter which involves an alteration of any right of any class of Company Equity Securities.

However, for the avoidance of doubt nothing in this Section 2.1(b) requires the Company to obtain the approval of the Company's shareholders in circumstances where it is not otherwise being proposed to shareholders for approval.

Section 2.2 Fall-Away of Voting Rights and Standstill. The provisions of Section 2.1(a), Section 2.1(b), Section 4.1 and Section 4.2 shall terminate and be of no further effect in the event:

(a) of a Company Change of Control,

(b) that any Person or group (as defined, as of the date hereof, under Section 13(d) of the Exchange Act) announces publicly an offer with respect to any transaction, or commences a proxy solicitation, involving the Company, any of its Subsidiaries, or any of their securities or assets, the consummation, or success, of which would result in a Company Change of Control (any such offer or proxy solicitation, a " Control Solicitation"), but only if and after the Board either (i) accepts or recommends in favor of such Control Solicitation or (ii) fails to recommend that its stockholders reject such Control Solicitation within ten (10) business days from the date of commencement of such Control Solicitation; provided, that, if the relevant Person or group announces publicly the withdrawal or discontinuation of such Control Solicitation prior to a Company Change of Control, the provisions of Section 2.1(a), Section 2.1(b), Section 4.1 and Section 4.2 shall be reinstated and shall again bind Shareholder and the Company from the date of such announcement; provided, however, that if, before the relevant Person or group announces publicly the withdrawal or discontinuation of such Control Solicitation, a Shareholder Group Member has publicly announced a Control Solicitation, Section 2.1(a), Section 2.1(b) and Section 4.1 shall not bind Shareholder in relation to any action in connection with the conduct of such Control Solicitation unless and until the Shareholder Group Member has publicly withdrawn or discontinued such Control Solicitation, or

(c) that the Board resolves to engage in a formal process that is intended to result in a transaction that if consummated would constitute a Company Change of Control, provided, that if the Board subsequently resolves to terminate the process prior to a Company Change of Control, the provisions of Section 2.1(a), Section 2.1(b), Section 4.1 and Section 4.2 shall be reinstated and shall again bind Shareholder and the Company from such date as the Board notifies Shareholder that the process has terminated.

ARTICLE III

REGISTRATION RIGHTS

Section 3.1 Required Registrations.

(a) Shelf Registration.

(i) Shelf Registration Statement. As soon as practicable after the Closing Date, but in no event more than one hundred eighty (180) days following the

Closing Date, the Company shall use reasonable best efforts to prepare and file with the Commission a Registration Statement covering the resale of all of the Registrable Securities (the "Shelf Registration") that are not then registered on an effective Registration Statement for an offering to be made on a continuous basis pursuant to Rule 415 (such Registration Statement, together with any post-effective amendment thereto and any new Registration Statement filed pursuant to this Section 3.1(a), are collectively referred to herein as the "Shelf Registration Statement"). The Shelf Registration Statement filed hereunder shall be on Form S-3 or any successor form (except if the Company is not then eligible to register for resale the Registrable Securities on Form S-3, in which case such registration shall be on another appropriate form in accordance herewith). Subject to the terms of this Agreement, the Company shall use its reasonable best efforts to cause the Shelf Registration Statement filed hereunder to be declared effective under the Securities Act as promptly as possible after the filing thereof, and shall use its reasonable best efforts to keep such Shelf Registration Statement continuously effective (including by filing any necessary post-effective amendments to such Shelf Registration Statement or a new Shelf Registration Statement) under the Securities Act until all Registrable Securities covered by such Shelf Registration Statement have been sold pursuant to such Shelf Registration Statement or another Registration Statement filed under the Securities Act or otherwise cease to be Registrable Securities (such period of effectiveness, the " Shelf Period"). The Company will pay all Registration Expenses in connection with the Shelf Registration, whether or not any registration or Prospectus becomes effective or final.

(ii) Shelf Demand Notice. At any time that a Shelf Registration Statement covering Registrable Securities pursuant to Section 3.1(a)(i) is effective, if a Shareholder Group Member desires to sell all or any portion of the Registrable Securities under such Shelf Registration Statement in an underwritten offering ("Shelf Demand Offering"), Shareholder shall notify (such notice being the " Shelf Demand Notice") the Company of such intent at least fifteen (15) days prior to such proposed sale (or, in the case of a Shelf Demand Offering that does not involve a "road show", at least three (3) days prior to such proposed sale), which notice shall specify the number of the Registrable Securities to be included in such Shelf Demand Offering.

(iii) Shelf Demand Offering. The Company shall prepare and file a prospectus supplement, post-effective amendment to the Shelf Registration Statement and/or Exchange Act reports incorporated by reference into the Shelf Registration Statement and take such other actions as reasonably necessary or appropriate to permit the consummation of such Shelf Demand Offering. In the case of a Shelf Demand Offering that does not involve a "road show", the Company shall take all actions to enable the Shareholder Group Member to price such offering within three (3) days of receipt of the Shelf Demand Notice; provided, that if a "comfort" letter is required in connection with the pricing of such offering, and the Company was unable to obtain such "comfort" letter within three (3) days of receipt of such Shelf Demand Notice, then the Company shall use its reasonable best efforts to obtain such "comfort" letter and price such offering as soon as reasonably practicable.

(b) Demand Registrations.

(i) If at any time (x) the Shelf Registration Statement contemplated by Section 3.1(a) is not effective to register all the Registrable Shares and (y) a Shareholder Group Member continues to hold any Registrable Securities, Shareholder may request in writing that the Company effect the registration of all or any part of the Registrable Securities (a "Registration Request"), provided, that the aggregate offering price applicable to any such Registration Request shall not be less than $25 million (determined in accordance with the aggregate Market Value of the Registrable Securities included in such Registration Request on the day on which such Registration Request is received by the Company). Promptly after its receipt of any Registration Request, the Company will use its reasonable best efforts to register, in accordance with the provisions of this Agreement, all Registrable Securities that have been requested to be registered in the Registration Request. The Company will pay all Registration Expenses incurred in connection with any registration pursuant to this Section 3.1(b), whether or not any registration or Prospectus becomes effective or final. Any registration requested by Shareholder pursuant to this Section 3.1(b) is referred to in this Agreement as a "Demand Registration."

(ii) Limitation on Demand Registrations. Shareholder will be entitled to initiate no more than three (3) Demand Registrations. No request for registration will count for the purposes of the limitations in this Section 3.1(b)(ii) if (i) the relevant Shareholder Group Member determines in good faith to withdraw the proposed registration prior to the effectiveness of the Registration Statement relating to such request due to adverse business developments at the Company that were not known to Shareholder at the time of the request to initiate such registration proceedings, (ii) the Registration Statement relating to such request is not declared effective within one hundred eighty (180) days of the date such Registration Statement is first filed with the Commission (other than solely by reason of the relevant Shareholder Group Member having refused to proceed) and Shareholder withdraws its Registration Request prior to such Registration Statement being declared effective, (iii) prior to the sale of at least ninety percent (90%) of the Registrable Securities included in the applicable registration relating to such request, such registration is adversely affected by any stop order, injunction or other order or requirement of the Commission or other Governmental Authority for any reason and the Company fails to have such stop order, injunction or other order or requirement removed, withdrawn or resolved to Shareholder's reasonable satisfaction within thirty (30) days of the date of such order, (iv) more than fifteen percent (15%) of the Registrable Securities requested by Shareholder to be included in the registration are not so included pursuant to Section 3.1(e), or (v)the conditions to closing specified in the underwriting agreement or purchase agreement entered into in connection with the registration relating to such request are not satisfied (other than as a result of a default or breach thereunder by the relevant Shareholder Group Member). Notwithstanding the foregoing, the Company will pay all Registration Expenses in connection with any request for a registration pursuant to Section 3.1(b)(i) regardless of whether or not such request counts toward the limitation set forth above.

(c) Restrictions on Required Registrations. If the filing, initial effectiveness or continued use of a Registration Statement with respect to the Shelf Registration or a Demand Registration would (i) require the Company to make a public disclosure of material non-public information, which disclosure in the good faith judgment of the Board (A) would be required to be made in any such Registration Statement so that such Registration Statement would not be materially misleading, (B) would not be required to be made at such time but for the filing, effectiveness or continued use of any such Registration Statement and (C) would in the good faith judgment of the Board reasonably be expected to have a material adverse effect on the Company or its business if made at such time, or (ii) in the good faith judgment of the Board reasonably be expected to have a material adverse effect on the Company or its business or on the Company's ability to effect a planned or proposed acquisition, disposition, financing, reorganization, recapitalization or similar transaction, then the Company may upon giving prompt written notice of such action to Shareholder (which hereby agrees to maintain the confidentiality of all information disclosed to such participants) delay the filing or initial effectiveness of, or suspend use of, any such Registration Statement, provided, that the Company shall not be permitted to do so (x) more than two (2) times during any twelve-month period or (y) for periods exceeding, in the aggregate, one hundred twenty (120) days during any twelve-month period (a "Suspension Period"). In the event the Company exercises its rights under the preceding sentence, Shareholder agrees to suspend, and to cause any relevant Shareholder Group Member to suspend, promptly upon receipt of the notice referred to above, its use of any Prospectus relating to such registration in connection with any sale or offer to sell Registrable Securities. Any Suspension Period shall terminate at such time as the public disclosure of such information is made or the requisite financial information becomes publicly available, as applicable. In the case of the Shelf Registration, or a Demand Registration not withdrawn pursuant to the immediately following sentence, after the expiration of any Suspension Period and without any further request from Shareholder (or any Shareholder Group Member), the Company shall as promptly as reasonably practicable prepare a post-effective amendment or supplement to the applicable Registration Statement or Prospectus, or any document incorporated therein by reference, or file any other required document so that, as thereafter delivered to purchasers of the Registrable Securities included therein, the applicable Prospectus will not include an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading. In the case of a Demand Registration, if the Company postpones the filing of a Prospectus or the effectiveness of a Registration Statement pursuant to this Section 3.1(c), Shareholder will be entitled to withdraw its request and, if such request is withdrawn, such registration request will not count for the purposes of the limitation set forth in Section 3.1(b)(ii). The Company will pay all Registration Expenses incurred in connection with any registration or Prospectus aborted pursuant to this Section 3.1(c).

(d) Selection of Underwriters.

(i) If pursuant to Section 3.1(a) or 3.1(b), a Shareholder Group Member intends that Registrable Securities be distributed by means of an underwritten offering, Shareholder will so advise the Company. In such event, the lead underwriter to administer the offering will be chosen by Shareholder subject to the prior written consent, not to be unreasonably withheld or delayed, of the Company.

(ii) If the offering is underwritten, the relevant Shareholder Group Member will (together with the Company) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting. If the relevant Shareholder Group Member disapproves of the terms of the underwriting, Shareholder may elect to withdraw any Registrable Securities therefrom by written notice to the Company and the managing underwriter.

(e) Priority on Required Registrations. The Company will not include in any registration pursuant to this Section 3.1 any securities that are not Registrable Securities, without the prior written consent of Shareholder. If the managing underwriter (or, if the applicable offering is not an underwritten offering, a nationally recognized independent investment bank selected by the Company) advises the Company that in its reasonable opinion the number of Registrable Securities (and, if permitted hereunder, other securities requested to be included in such offering) exceeds the number of securities that can be sold in such offering without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), the Company will include in such offering only such number of securities that in the reasonable opinion of such underwriters can be sold without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), which securities will be so included in the following order of priority: (i) first, the Registrable Securities requested by Shareholder to be included in such offering; (ii) second, securities the Company proposes to sell; and (iii) third, any other securities of the Company that have been requested to be so included.

(f) Effective Registration Statement. A registration pursuant to this Section 3.1 shall not be deemed to have been effected unless it is declared effective by the Commission and remains effective for the period specified in Section 3.3(b).

Section 3.2 Piggyback Registrations.

(a) Right to Piggyback. For so long as any Shareholder Group Member continues to hold any Registrable Securities, whenever the Company proposes to register any of its securities, other than a registration pursuant to Section 3.1, and the registration form to be filed may be used for the registration or qualification for distribution of Registrable Securities, the Company will give prompt written notice no later than fifteen (15) business days prior to the anticipated filing of a Registration Statement (other than in connection with a registration statement on Forms S-4, F-4 or S-8 or any similar or successor form) with respect to such registration to Shareholder of its intention to effect such a registration (a " Piggyback Registration"). Subject to Section 3.2(d), the Company will include in such registration all Registrable Securities with respect to which the Company has received written requests from Shareholder for inclusion therein within ten (10) business days after the date of the Company's notice. Shareholder may withdraw the Registrable Securities from any Piggyback Registration by giving written notice to the Company and the managing underwriter, if any, on or before the tenth business day prior to the planned effective date of such Piggyback Registration. The Company may terminate or withdraw any registration under this Section 3.2 prior to the effectiveness of such registration, whether or not Shareholder has elected to include Registrable Securities in such registration, and except for the obligation to pay Registration Expenses pursuant to Section 3.2(c) the Company will have no liability to any relevant Shareholder Group Member in connection with such termination or withdrawal.

(b) Underwritten Registration. If the registration referred to in Section 3.2(a) is proposed to be underwritten by the Company or the Persons who have sought to have securities of the Company registered in such Piggyback Registration pursuant to a demand right, the Company will so advise Shareholder as a part of the written notice given pursuant to Section 3.2(a). In such event, the right of Shareholder to request the registration of Registrable Securities pursuant to this Section 3.2 will be conditioned upon the relevant Shareholder Group Member's participation in such underwriting and the inclusion of Registrable Securities in the underwriting, and the relevant Shareholder Group Member will (together with the Company) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company. If Shareholder disapproves of the terms of the underwriting, Shareholder may elect to withdraw any Registrable Securities therefrom by written notice to the Company and the managing underwriter.

(c) Piggyback Registration Expenses. The Company will pay all Registration Expenses in connection with any Piggyback Registration, whether or not any registration or Prospectus becomes effective or final.

(d) Priority on Piggyback Registrations. If, in connection with a Piggyback Registration, the managing underwriter (or, if such Piggyback Registration is not an underwritten registration, a nationally recognized independent investment bank selected by the Company) advises the Company that in its reasonable opinion the number of securities requested to be included in such registration exceeds the number which can be sold without adversely affecting the marketability of such offering (including an adverse effect on the per share offering price), the Company will include in such registration or Prospectus only such number of securities that in the reasonable opinion of such underwriters can be sold without adversely affecting the marketability of the offering (including an adverse effect on the per share offering price), which securities will be so included in the following order of priority:

(i) If the Piggyback Registration relates to an offering for the Company's own account, then (A) first, the securities the Company proposes to sell (B) second, Registrable Securities that Shareholder has requested to be registered pursuant to Section 3.2(a), and (C) third, any other securities of the Company that have been requested to be so included;

(ii) If the Piggyback Registration relates to an offering other than for the Company's own account, then (A) first, the securities of the Person or Persons who initiated the Piggyback Registration by seeking to have securities of the Company registered in such Piggyback Registration, (B) second, the securities the Company proposes to sell, (C) third, the Registrable Securities requested by Shareholder to be registered pursuant to Section 3.2(a), and (D) fourth, any other securities of the Company that have been requested to be so included.

Section 3.3 Registration Procedures. Subject to the provisions of Sections 3.1 and 3.2, pursuant to the Shelf Registration and, if applicable, each Demand Registration and each

Piggyback Registration, the Company will use its reasonable best efforts to effect the registration and sale of such Registrable Securities as soon as reasonably practicable in accordance with the intended method of disposition thereof and pursuant thereto. The Company shall use its reasonable best efforts to as expeditiously as possible:

(a) prepare and file with the Commission a Registration Statement with respect to such Registrable Securities in accordance with the intended method or methods of distribution thereof, make all required filings with the Financial Industry Regulatory Authority and thereafter use its reasonable best efforts to cause such Registration Statement to become effective as soon as reasonably practicable, provided that before filing a Registration Statement or a Prospectus or any amendments or supplements thereto, the Company will furnish to Shareholder's Counsel copies of all such documents proposed to be filed, which documents will be subject to review of such counsel at the Company's expense;

(b) prepare and file with the Commission such amendments and supplements to such Registration Statement as may be necessary to keep such Registration Statement effective either (i) for a period of not less than (A) three months or (B) if such Registration Statement relates to an underwritten offering, such longer period as a Prospectus is required by Law to be delivered in connection with sales of Registrable Securities by an underwriter or dealer or (C) in the case of the Shelf Registration Statement, the Shelf Period or (ii) such shorter period as ends when all of the securities covered by such Registration Statement have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such Registration Statement (but in any event not before the expiration of any longer period required under the Securities Act), and comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such Registration Statement, and cause the related Prospectus to be supplemented by any Prospectus supplement or Issuer Free Writing Prospectus as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of the securities covered by such Registration Statement, and as so supplemented to be filed pursuant to Rule 424 (or any similar provisions then in force) under the Securities Act, until such time as all of such securities have been disposed of in accordance with the intended methods of disposition by the seller or sellers thereof set forth in such Registration Statement;

(c) furnish to Shareholder such number of copies, without charge, of such Registration Statement, each amendment and supplement thereto, including each Prospectus (including each preliminary Prospectus), all exhibits and other documents filed therewith and such other documents as Shareholder may reasonably request including in order to facilitate the disposition of the Registrable Securities;

(d) register or qualify such Registrable Securities under such other securities or blue sky laws of such jurisdictions as any seller reasonably requests and do any and all other acts and things that may be reasonably necessary or reasonably advisable to enable the relevant Shareholder Group Member to consummate the disposition in such jurisdictions of the Registrable Securities (provided that the Company will not be required to (i) qualify generally to do business in any jurisdiction where it would not otherwise be required to qualify but for this subsection, (ii) subject itself to taxation in any such jurisdiction or (iii) consent to general service of process in any such jurisdiction);

(e) notify Shareholder and Shareholder's Counsel, at any time when a Prospectus relating thereto is required to be delivered under the Securities Act, upon discovery that, or upon the discovery of the happening of any event as a result of which, the Prospectus included in such Registration Statement contains an untrue statement of a material fact or omits any fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made, and, as soon as reasonably practicable, prepare and furnish to Shareholder a reasonable number of copies of a supplement or amendment to such Prospectus so that, as thereafter delivered to the purchasers of such Registrable Securities, such Prospectus will not contain an untrue statement of a material fact or omit to state any fact necessary to make the statements therein not misleading in the light of the circumstances under which they were made;

(f) notify Shareholder and Shareholder's Counsel (i) when such Registration Statement or the Prospectus or any prospectus supplement or post-effective amendment has been filed and, with respect to such Registration Statement or any post-effective amendment, when the same has become effective, (ii) of any request by the Commission for amendments or supplements to such Registration Statement or to amend or to supplement such Prospectus for additional information and (ii) of the issuance by the Commission of any stop order suspending the effectiveness of such Registration Statement or the initiation of any proceedings for any of such purposes;

(g) cause all such Registrable Securities to be listed on each securities exchange on which similar securities issued by the Company are then listed or, if no similar securities issued by the Company are then listed on any securities exchange, use its reasonable best efforts to cause all such Registrable Securities to be listed on the NYSE, the AMEX or the NASDAQ stock market, as determined by the Company;

(h) provide a transfer agent and registrar for all such Registrable Securities not later than the effective date of such Registration Statement;

(i) enter into such customary agreements (including underwriting agreements and, subject to Section 3.7, lock-up agreements in customary form, and including provisions with respect to indemnification and contribution in customary form) and take all such other customary actions as Shareholder or the underwriters, if any, reasonably request in order to expedite or facilitate the disposition of such Registrable Securities (including, without limitation, causing members of senior management of the Company to use their reasonable best efforts to support the marketing, offering or selling of the Registrable Securities covered by such Registration Statement, including by participation in "road show" (including before analysts and ratings agencies) and other customary marketing activities);

(j) make available for inspection by Shareholder, the relevant Shareholder Group Member and Shareholder's Counsel, any underwriter participating in any disposition pursuant to such Registration Statement and any attorney, accountant or other agent retained by Shareholder, the relevant Shareholder Group Member or any such underwriter, all relevant financial and other records, pertinent corporate documents and documents relating to the business of the Company, and cause the Company's officers, directors, employees and independent accountants to supply all information reasonably requested by Shareholder, the relevant Shareholder Group Member or any such underwriter, attorney, accountant or agent in

connection with such Registration Statement, provided that it shall be a condition to such inspection and receipt of such information that the inspecting Person (i) enter into a confidentiality agreement in form and substance reasonably satisfactory to the Company and (ii) agree to minimize the disruption to the Company's business in connection with the foregoing;

(k) timely provide to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and Rule 158 thereunder;

(l) in the event of the issuance of any stop order suspending the effectiveness of a Registration Statement, or of any order suspending or preventing the use of any related Prospectus, or ceasing trading of any securities included in such Registration Statement for sale in any jurisdiction, use every reasonable effort to promptly obtain the withdrawal of such order;

(m) obtain one or more comfort letters and updates thereof, addressed to the underwriters, if any, signed by the Company's independent public accountants in customary form (including, in each case, with respect to the date thereof) and covering such matters of the type customarily covered by comfort letters in connection with underwritten offerings as such underwriters reasonably request; and

(n) provide legal opinions of the Company's counsel, addressed to the underwriters, if any, dated the date of the closing under the underwriting agreement, with respect to the Registration Statement, each amendment and supplement thereto (including the preliminary Prospectus) and such other documents relating thereto as such underwriters shall reasonably request in customary form and covering such matters of the type customarily covered by legal opinions of such nature.

As a condition to registering Registrable Securities, the Company may require Shareholder to furnish the Company with such information regarding the relevant Shareholder Group Member and pertinent to the disclosure requirements relating to the registration and the distribution of such securities as the Company may from time to time reasonably request in writing.

Section 3.4 Registration Expenses.

(a) Except as otherwise provided in this Agreement, all expenses incidental to the Company's performance of or compliance with this Agreement, including, without limitation, all registration and filing fees, fees and expenses of compliance with securities or blue sky laws, word processing, duplicating and printing expenses, messenger and delivery expenses, and fees and disbursements of counsel for the Company and all independent certified public accountants, underwriters and other Persons retained by the Company (all such expenses, " Registration Expenses"), will be borne by the Company. The Company will, in any event, pay its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expenses of any annual audit or quarterly review, the expenses of any liability insurance and the expenses and fees for listing the securities to be registered on each securities exchange on which similar securities issued by the Company are then listed or on the NYSE, the AMEX or NASDAQ. All Selling Expenses will be borne by Shareholder (or the relevant Shareholder Group Member, as the case may be).

(b) In connection with the Shelf Registration, each Demand Registration and each Piggyback Registration in which a Shareholder Group Member participates, as applicable, the Company will reimburse Shareholder for the reasonable fees and disbursements of one counsel (" Shareholder's Counsel").

Section 3.5 Participation in Underwritten Registrations.

(a) A Shareholder Group Member may not participate in any registration hereunder that is underwritten unless the Shareholder Group Member (i) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements approved by Shareholder and (ii) cooperates with the Company's reasonable requests in connection with such registration or qualification (it being understood that the Company's failure to perform its obligations hereunder, which failure is caused by the Shareholder Group Member's failure to cooperate with such reasonable requests, will not constitute a breach by the Company of this Agreement).

(b) Shareholder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 3.3(e), Shareholder will forthwith discontinue, or ensure that the relevant Shareholder Group Member discontinues, the disposition of its Registrable Securities pursuant to the Registration Statement until Shareholder receives copies of a supplemented or amended Prospectus as contemplated by such Section 3.3(e). In the event the Company gives any such notice, the applicable time period mentioned in Section 3.3(b) during which a Registration Statement is to remain effective will be extended by the number of days during the period from and including the date of the giving of such notice pursuant to this Section 3.5(b) to and including the date when Shareholder will have received the copies of the supplemented or amended Prospectus contemplated by Section 3.3(e).

Section 3.6 Rule 144; Legended Securities; etc.

(a) With a view to making available to Shareholder Group Members the benefits of Rule 144 promulgated under the Securities Act and any other similar rule or regulation of the Commission that may at any time permit a Shareholder Group Member to sell securities of the Company to the public without registration, the Company agrees to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144;

(ii) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act so long as the Company remains subject to such requirements (it being understood that nothing herein shall limit the Company's obligations with respect to such requirements under the Purchase and Contribution Agreement) and the filing of such reports and other documents as is required for the applicable provisions of Rule 144; and

(iii) furnish to Shareholder so long as a Shareholder Group Member owns Registrable Securities, promptly upon written request, (A) a written statement by the Company that it has complied with the reporting requirements of Rule 144, the

Securities Act and the Exchange Act, (B) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company, and (C) such other information as may be reasonably requested to permit Shareholder Group Members to sell such securities pursuant to Rule 144 without registration.

(b) The Company will not issue new certificates for shares of Registrable Securities without a legend restricting further transfer unless (i) such shares have been sold to the public pursuant to an effective Registration Statement under the Securities Act or Rule 144, or (ii) (A) otherwise permitted under the Securities Act and applicable Laws, and (B) Shareholder shall have delivered to the Company an opinion of counsel, which opinion and counsel shall be reasonably satisfactory to the Company, to such effect.

Section 3.7 Holdback. In consideration for the Company agreeing to its obligations under this Agreement, Shareholder agrees in connection with any registration of the Company's securities (whether or not a Shareholder Group Member is participating in such registration) upon the request of the Company and the underwriters managing any underwritten offering of the Company's securities, not to effect and not to permit any Shareholder Group Member to effect (other than pursuant to such registration) any public sale or distribution of Registrable Securities, including, but not limited to, any sale pursuant to Rule 144 or Rule 144A, or make any short sale of, loan, grant any option for the purchase of, enter into any hedging or similar transaction with the same economic effect of a sale, or otherwise dispose of any Registrable Securities, any other equity securities of the Company or any securities convertible into or exchangeable or exercisable for any equity securities of the Company without the prior written consent of the Company or such underwriters, as the case may be, during the Holdback Period, provided that nothing herein will prevent a Shareholder Group Member, if it is a partnership or corporation, from making a distribution of Registrable Securities to the partners or shareholders thereof or a transfer to an Affiliate of the Shareholder Group Member that is otherwise in compliance with applicable securities Laws, so long as such distributees or Affiliates agree to be so bound. With respect to an underwritten offering of Registrable Securities covered by a registration pursuant to Section 3.1 or 3.2, the Company further agrees not to effect (other than pursuant to such registration) any public sale or distribution, or to file any Registration Statement (other than pursuant to such registration) covering any, of its equity securities, or any securities convertible into or exchangeable or exercisable for such securities, during the Holdback Period with respect to such underwritten offering, if required by the managing underwriter; provided, that notwithstanding anything to the contrary herein, the Company's obligations under this Section 3.7 shall not apply during any twelve-month period for more than an aggregate of ninety (90) days.

Section 3.8 Indemnification.

(a) The Company agrees to indemnify and hold harmless, to the fullest extent permitted by Law, Shareholder, each other Shareholder Group Member that has Registrable Securities, their respective officers, directors and managers and each Person who is a controlling Person of Shareholder, or of the relevant Shareholder Group Members, within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act (each such person being referred to herein as a "Covered Person") against, and pay and reimburse such Covered Persons for, any losses, claims, damages, liabilities, joint or several, to which such Covered Person may

become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities and expenses (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon (i) any untrue or alleged untrue statement of material fact contained or incorporated by reference in any Registration Statement, Prospectus, preliminary Prospectus or any amendment thereof or supplement thereto, or any document incorporated by reference therein, or (ii) any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company will pay and reimburse such Covered Persons for any legal or any other expenses actually and reasonably incurred by them in connection with investigating, defending or settling any such loss, claim, liability, action or proceeding, provided that the Company shall not be liable to a Covered Person in any such case to the extent that any such loss, claim, damage, liability or expense (or action or proceeding in respect thereof) or expense arises out of or is based upon an untrue statement or alleged untrue statement, or omission or alleged omission, made or incorporated by reference in such Registration Statement, any such Prospectus, preliminary Prospectus or any amendment thereof or supplement thereto, or any document incorporated by reference therein, in reliance upon, and in conformity with, written information prepared and furnished to the Company by any Covered Persons expressly for use therein or arises out of or is based on the relevant Shareholder Group Member's failure to deliver a copy of the Registration Statement or Prospectus, preliminary Prospectus or any amendments or supplements thereto after the Company has furnished Shareholder with a sufficient number of copies thereof. In connection with an underwritten offering, the Company, if requested, will indemnify such underwriters, their officers and directors and each Person who controls such underwriters (within the meaning of the Securities Act) to the same extent as provided above with respect to the indemnification of the Covered Persons.

(b) In connection with any Registration Statement in which a Shareholder Group Member is participating, Shareholder will furnish to the Company in writing such information as the Company reasonably requests for use in connection with any such Registration Statement or Prospectus and, will indemnify and hold harmless the Company, its directors and officers, each underwriter and any Person who is or might be deemed to be a controlling person of the Company, any of its subsidiaries or any underwriter within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any losses, claims, damages, liabilities, joint or several, to which the Company or any such director or officer, any such underwriter or controlling person may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions or proceedings, whether commenced or threatened, in respect thereof) arise out of or are based upon (i) any untrue or alleged untrue statement of material fact contained in the Registration Statement, Prospectus, preliminary Prospectus or any amendment thereof or supplement thereto or (ii) any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein not misleading, but only to the extent that such untrue statement or omission is made in such Registration Statement, any such Prospectus, preliminary Prospectus or any amendment or supplement thereto in reliance upon and in conformity with written information prepared and furnished to the Company by a Shareholder Group Member expressly for use therein, and Shareholder will reimburse the Company and each such director, officer, underwriter and controlling Person for any legal or any other expenses actually and reasonably incurred by them in connection with investigating, defending or settling any such loss, claim, liability, action or proceeding, provided that the obligation to indemnify and hold harmless will

be individual and several to Shareholder and will be limited to the net amount of proceeds actually received by Shareholder Group Members from the sale of Registrable Securities pursuant to such Registration Statement.

(c) Any Person entitled to indemnification hereunder will (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) unless in such indemnified party's reasonable judgment a conflict of interest between such indemnified and indemnifying parties may exist with respect to such claim, permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party. If such defense is assumed, the indemnifying party will not, without the indemnified party's prior consent, settle or compromise any action or claim or consent to the entry of any judgment unless such settlement or compromise includes as an unconditional term thereof the release of the indemnified party from all liability, which release shall be reasonably satisfactory to the indemnified party. An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, unless in the reasonable judgment of any indemnified party a conflict of interest may exist between such indemnified party and any other of such indemnified parties with respect to such claim.

(d) The indemnification provided for under this Agreement will remain in full force and effect regardless of any investigation made by or on behalf of the indemnified party or any officer, director or controlling Person of such indemnified party and will survive the registration and sale of any securities by any Person entitled to any indemnification hereunder and the expiration or termination of this Agreement.

(e) If the indemnification provided for in Section 3.8(a) or Section 3.8(b) is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party thereunder, will contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other hand in connection with the statements or omissions which resulted in such loss, liability, claim, damage or expense as well as any other relevant equitable considerations. The relevant fault of the indemnifying party and the indemnified party will be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. Notwithstanding the foregoing, the amount Shareholder will be obligated to contribute pursuant to this Section 3.8(e) will not exceed an amount equal to the net proceeds to the Shareholder Group Members of the Registrable Securities sold pursuant to the Registration Statement which gives rise to such obligation to contribute (less the aggregate amount of any damages which Shareholder Group Members have otherwise been required to pay in respect of such loss, claim, damage, liability or action or any substantially similar loss, claim, damage, liability or action arising from the sale of such Registrable Securities). No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

Section 3.9 No Inconsistent Agreements. The Company will not hereafter enter into any agreement with respect to its securities which is inconsistent with or violates the rights granted to the holders of Registrable Securities in this Agreement or grant any registration rights to any other Person that rank equally with, or in priority to, the rights granted to holders of Registrable Securities in this Agreement without obtaining the prior approval of Shareholder.

ARTICLE IV

STANDSTILL AND RESTRICTIONS

Section 4.1 Standstill. Shareholder hereby agrees that, from and after the date hereof, Shareholder shall not, and shall not permit any Shareholder Group Member to, directly or indirectly, unless (1) specifically requested by the Company in writing, (2) as the result of the transactions contemplated by Section 7.03 of the Purchase and Contribution Agreement, or (3) otherwise expressly contemplated by the terms of this Agreement, the Purchase and Contribution Agreement or the Ancillary Agreements (as defined in the Purchase and Contribution Agreement):

(a) acquire, offer to acquire, or agree to acquire, by purchase or otherwise, (i) any shares of Capital Stock that results in the aggregate Percentage Interest of all Shareholder Group Members exceeding nineteen and nine-tenths percent (19.9%) of the total number of shares of Capital Stock then outstanding, or (ii) the power to vote and/or direct the vote of shares of Capital Stock (after taking into account that shares of Class B Common Stock have ten (10) votes per share) in excess of nineteen and nine-tenths percent (19.9%) of the total voting power of all shares of Capital Stock then outstanding (each of (A) and (B), the "Ownership Limit"). Notwithstanding the foregoing, (x) Shareholder shall not be deemed to be in violation of the Ownership Limit as the result of the acquisition (whether by merger, consolidation, exchange of equity interests, purchase of all or part of the equity interests or assets or otherwise) by any Shareholder Group Member of any Person (any Person which is a Subsidiary of a Shareholder Group Member after such acquisition, an "Acquired Person" or "Acquired Persons" at the times that it is such a Subsidiary) that owns or beneficially owns Capital Stock, or as the result of any repurchase of Capital Stock by the Company, or any other action taken by the Company or any of its Affiliates, provided, however, that (y) if at any time Shareholder (together with other Shareholder Group Members) acquires or becomes beneficial owner of Capital Stock and/or acquires any Acquired Person(s) that owns or beneficially owns Capital Stock, such that the Capital Stock owned or beneficially owned by Shareholder Group Members (including Acquired Person(s)) in the aggregate represents more than the Ownership Limit (other than pursuant to the clause (x) of this sentence), then Shareholder shall, and shall cause other Shareholder Group Members (including Acquired Persons) to, as soon as is reasonably practicable (but in no event longer than one hundred twenty (120) days after such ownership of Capital Stock first exceeds the Ownership Limit or such longer period as may be necessary due to the possession of material non-public information or so that neither Shareholder nor any other Shareholder Group Member incurs any liability under Section 16(b) of the Exchange Act if, for purposes of Section 16(b), Shareholder has not acquired beneficial ownership of any other shares of Capital Stock after the

date of the transaction that resulted in Shareholder exceeding the Ownership Limit) transfer to a third party a number of shares of Capital Stock sufficient to reduce the amount of Capital Stock owned or beneficially owned in the aggregate by the Shareholder Group Members (including Acquired Person(s)) to an amount not in excess of the Ownership Limit; and provided further, however, that, notwithstanding anything in this Agreement to the contrary, if at any time the Shareholder Group Members (including Acquired Person(s)) own Capital Stock in the aggregate representing more than the Ownership Limit, the Shareholder Group Members (including Acquired Person(s)) will not be entitled to vote (or cause to be voted) the shares of Capital Stock representing voting power (after taking into account that shares of Class B Common Stock have ten (10) votes per share) in excess of nineteen and nine-tenths percent (19.9%) of the total voting power of all shares of Capital Stock then outstanding. For purposes of calculating the Ownership Limits, the Capital Stock outstanding at a particular time shall be the amount of Capital Stock outstanding as set out in the Company's then most recent filings with the Commission;

(b) acquire, offer to acquire, or agree to acquire, by purchase or otherwise, any material assets of the Company or any Subsidiary thereof, other than (A) in the ordinary course of business or (B) assets of Carrier Enterprises or any of its Subsidiaries;

(c) make, or in any way participate in, any "solicitation" of "proxies" (as such terms are used in the rules of the Commission) to vote (including by consent), or seek to advise or influence any Person with respect to the voting of, any voting securities of the Company;

(d) submit to the Company any shareholder proposal for inclusion in any proxy statement;

(e) seek or propose to obtain representation on the Board;

(f) make any public announcement with respect to, or submit a proposal (whether or not public) for, or offer of (with or without conditions) any extraordinary transaction involving the Company or its securities or assets;

(g) form, join or in any way participate in a group (as defined, as of the date hereof, under Section 13(d) of the Exchange Act) (other than such a group consisting solely of Shareholder's Affiliates) in connection with any of the foregoing;

(h) seek in any way which would require public disclosure under applicable Law to have any provision of this Section 4.1 amended, modified or waived; or

(i) otherwise take any actions with the purpose or effect of avoiding or circumventing any provision of this Section 4.1.

Section 4.2 Anti-Takeover Provisions. From the date hereof, the Company shall take all reasonable actions to ensure that (i) none of Section 607.0901 and Section 607.0902 of the Florida Business Corporation Act or any "fair price," "moratorium," "control share acquisition" or other form of anti-takeover statute or regulation under Florida law, (ii) no anti-takeover provision in the articles of incorporation or by-laws of the Company or other similar organizational documents of its Subsidiaries, and (iii) no shareholder rights plan, "poison pill" or similar measure, in each case that contains restrictions that are different from or in addition to those contained in Section 4.1, is applicable to any Shareholder Group Member's ownership of Company Equity Securities.

Section 4.3 Restrictive Legend. Each certificate representing any of the Subject Shares beneficially owned by Shareholder shall be marked conspicuously with at least the following legend:

> THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS, INCLUDING WITH RESPECT TO THE DIRECT OR INDIRECT TRANSFER THEREOF AND RESTRICTIONS ON THE VOTING OF THE SHARES, UNDER A SHAREHOLDER AGREEMENT, DATED AS OF JULY 1, 2009 AND AMENDED AND RESTATED AS OF JANUARY 24, 2012.

Section 4.4 Rights of First Refusal on Transfer. Any Restricted Transfer shall be subject to the rights of refusal set forth in this Section 4.4. For the purposes of this Agreement, "Restricted Transfer" shall mean the sale in a private transaction by Shareholder Group Members of Subject Shares representing more than 50,000 shares to any Person. Prior to any Restricted Transfer, Shareholder shall consider in good faith, and discuss with the Company the possibility of, (i) the relevant Shareholder Group Members offering to sell such Subject Shares to the Company, (ii) negotiating with the Company with respect to the sale of such Subject Shares to the Company and (iii) selling such Subject Shares to the Company; provided, that nothing herein shall be deemed to restrict Shareholder's or any Shareholder Group Member's ability to determine, in its sole discretion, (i) to terminate any discussions with the Company at any time or (ii) not to (A) offer to sell such Subject Shares to the Company, (B) negotiate with the Company with respect to the sale of such Subject Shares to the Company and (C) sell such Subject Shares to the Company, or prevent any relevant Shareholder Group Member from engaging in any Restricted Transfer.

Section 4.5 Conversion of Class B Common Stock. For so long as a Shareholder Group Member beneficially owns any shares of Class B Common Stock, the Company shall not amend or repeal, or adopt any provision in its governing documents that is inconsistent with, Section III(A)(4) of the Company's Amended and Restated Articles of Incorporation, and shall at all times reserve and keep available, out of the aggregate of its authorized but unissued Common Stock, and issued Common Stock held in its treasury, for the purpose of effecting the conversion of the Class B Common Stock contemplated by Section III(A)(4) of the Company's Amended and Restated Articles of Incorporation, the full number of shares of Common Stock then deliverable upon the conversion of all outstanding shares of Class B Common Stock beneficially owned by Shareholder. The Company shall use its reasonable best efforts to cause such shares of Common Stock to be at all times approved for listing on the NYSE, subject to official notice of issuance, as applicable.

Section 4.6 Sections 607.0901 and 607.0902 of the Florida Business Corporation Act. The Company shall not, and shall cause its controlled Affiliates, including its Subsidiaries, not to, take (or cause to be taken) any action that would, or would be reasonably likely to, cause any Shareholder Group Member to be an "interested shareholder" (as such term is defined in Section 607.0901 of the Florida Business Corporation Act) with respect to the Company, and shall, and

shall cause its controlled Affiliates, including its Subsidiaries, to take (or cause to be taken) all actions necessary so that the restrictions contained in Section 607.0901 and Section 607.0902 of the Florida Business Corporation Act or any "fair price," "business combination," "takeover" or "control share acquisition" statute or other similar statute or regulation of any jurisdiction shall not apply to the execution, delivery or performance of the Purchase and Contribution Agreement or any of the Ancillary Agreements or the transactions contemplated by the Purchase and Contribution Agreement or any of the Ancillary Agreements; provided, that nothing herein shall be deemed to relieve the Company or any of its Subsidiaries (including Carrier Enterprises) of any of their respective obligations under the Purchase and Contribution Agreement or any of the Ancillary Agreements.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF SHAREHOLDER

Shareholder hereby represents and warrants to the Company as of the date hereof:

Section 5.1 Due Organization, etc. Shareholder is duly organized and validly existing under the laws of the jurisdiction of its formation. Shareholder has all necessary power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by Shareholder have been duly authorized by all necessary action on the part of Shareholder. This Agreement constitutes a valid and binding obligation of Shareholder, enforceable against Shareholder in accordance with its terms, except as limited by the application of bankruptcy, moratorium and other Laws affecting creditors' rights generally and as limited by the availability of specific performance and the application of equitable principles.

Section 5.2 No Conflicts. None of the execution and delivery of this Agreement by Shareholder, the consummation by Shareholder of the transactions contemplated hereby or compliance by Shareholder with any of the provisions hereof shall (a) conflict with or result in any breach of the organizational documents of Shareholder, (b) result in, or give rise to, a violation or breach of or a default under any of the material terms of any material contract, agreement or other instrument or obligation to which Shareholder is a party or by which Shareholder or any of its assets may be bound or by which any of the Subject Shares of Shareholder or any of its Affiliates may be bound, or (c) result in the creation of, or impose any obligation on Shareholder or any of its Affiliates to create, any lien upon the Subject Shares of Shareholder or any of its Affiliates, other than liens created pursuant to this Agreement, the Purchase and Contribution Agreement, or any of the Ancillary Agreements, except for any of the foregoing as does not and could not reasonably be expected to materially impair Shareholder's ability to perform its obligations under this Agreement.

Section 5.3 No Control Intent. Shareholder, on behalf of itself and the Shareholder Group Members, does not intend to acquire, and, except to the extent not prohibited by this Agreement, including Section 4.1, shall not acquire, directly or indirectly, alone or together with another Person or group (as defined, as of the date hereof, under Section 13(d) of the Exchange Act) (a) an interest in the Company exceeding nineteen and nine-tenths percent (19.9%) of the

total number of shares of Capital Stock then outstanding, or (b) the power to vote and/or direct the vote of shares of Capital Stock (after taking into account that shares of Class B Common Stock have ten (10) votes per share) in excess of nineteen and nine-tenths percent (19.9%) of the total voting power of all shares of Capital Stock then outstanding.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants to Shareholder as of the date hereof:

Section 6.1 Due Organization, etc. The Company is a corporation duly organized and validly existing under the laws of the State of Florida. The Company has all necessary power and authority to execute and deliver this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby by the Company have been duly authorized by all necessary action on the part of the Company. This Agreement constitutes a valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as limited by the application of bankruptcy, moratorium and other Laws affecting creditors' rights generally and as limited by the availability of specific performance and the application of equitable principles.

Section 6.2 No Conflicts. Neither the execution and delivery of this Agreement by the Company nor the consummation by the Company of the transactions contemplated hereby shall (a) conflict with or result in any breach of the organizational documents of the Company, or (b) result in, or give rise to, a violation or breach of or a default under any of the material terms of any material contract, agreement or other instrument or obligation to which the Company or any of its Subsidiaries is a party or by which the Company, any of its Subsidiaries or any of their respective assets may be bound, except for any of the foregoing as does not and could not reasonably be expected to materially impair the Company's ability to perform its obligations under this Agreement.

ARTICLE VII

TERMINATION

Section 7.1 Termination.

(a) Subject to Section 7.1(b), this Agreement shall terminate and neither the Company nor Shareholder shall have any rights or obligations hereunder upon the termination of this Agreement by mutual written consent of the Company and Shareholder; provided, that (i) Article II and Article IV shall terminate and be of no further force and effect at such time as Albert Nahmad and/or any of his Family Members and/or Related Affiliates ceases to hold collectively more than twenty percent (20%) of the total voting power of all shares of Capital Stock then outstanding; and (ii) Article II (other than Section 2.2, to the extent such Section relates to Section 4.1 or Section 4.2) shall terminate and be of no further force and effect at such time as the Percentage Interest of the Shareholder Group Members and any Acquired Persons (as defined in Section 4.1), in the aggregate, no longer exceeds five percent (5%); and (iii) Article III shall terminate and be of no further force and effect at such time as the Shareholder Group Members, in the aggregate, no longer hold Registrable Securities constituting more than two percent (2%) (subject to customary anti-dilution adjustments) of the total number of shares of Capital Stock outstanding as of the date hereof. Notwithstanding the foregoing, in the event Article II terminates pursuant to subsection "(ii)" of this Section 7.1(a), Article II shall be reinstated in full force and effect and shall again bind Shareholder if, within the period of 730 days following the date that Article II terminated, the Percentage Interest of the Shareholder Group Members (including any Acquired Persons (as

defined in Section 4.1)), in the aggregate, again exceeds five percent (5%); such that reinstatement of Article II shall become effective upon the first day that the Percentage Interest of the Shareholder Group Members (including any Acquired Persons (as defined in Section 4.1)), in the aggregate, again exceeds five percent (5%).

(b) Notwithstanding the foregoing, Section 3.4, Section 3.6(a), Section 3.8, this Section 7.1, and Article VIII of this Agreement shall survive the termination of this Agreement or any Article hereof.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Further Actions. Each of the parties hereto agrees that it will use commercially reasonable efforts to do all things necessary to effectuate the intent and provisions of this Agreement.

Section 8.2 Notices. Except as otherwise provided herein, all notices, demands and other communications to be given or delivered under or by reason of the provisions of this Agreement ("Notices") shall be in writing and shall be deemed to have been given (i) if personally delivered, on the date of delivery, (ii) if delivered by express courier service of national standing (with charges prepaid) or by registered mail, upon actual receipt, or (iii) if delivered by telecopy, (x) upon actual receipt if received at or prior to 5:00 p.m., local time of the recipient party, or (y) at the beginning of the recipient's next business day following actual receipt if received after 5:00 p.m., local time of the recipient party. All Notices by telecopier shall be confirmed by the sender thereof promptly after transmission in writing by registered mail or personal delivery. Notices, demands and communications to any party hereto shall, unless another address or facsimile number is specified in writing pursuant to the provisions hereof, be sent to the address or facsimile number indicated below:

If to the Company to:

Watsco, Inc.
2665 South Bayshore Drive
Suite 901
Coconut Grove, FL 33133
Attention: Barry S. Logan
Senior Vice President
Facsimile No.: 305-858-4492

with a copy (which shall not constitute notice) to

Akerman Senterfitt
One SE 3rd Ave.
28th Floor
Miami, FL 33131
Attention: Stephen K. Roddenberry, Esq.
Facsimile No.: 305-374-5095

If to Shareholder, to:

Carrier Corporation
One Carrier Place
Farmington, CT 06034-4015
Attention: Donald K. Cawley, Esq.
General Counsel
Facsimile No.: 860-660-0777

Section 8.3 Assignment; Binding Effect. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned, in whole or in part, by operation of law or otherwise, by any of the parties hereto without the prior written consent of the other parties; provided, that no such assignment shall relieve the assigning party of its obligations hereunder if such assignee does not perform such obligations; provided, further, that (a) this Agreement shall be binding upon, inure to the benefit of, and be enforceable by, the parties hereto and their respective successors and permitted assigns, and (b) Shareholder may assign its rights under this Agreement in connection with a transfer of Capital Stock to any Affiliate of Shareholder which agrees to be bound by this Agreement. Any purported assignment not permitted under this Section shall be null and void.

Section 8.4 Third Party Beneficiaries. Notwithstanding anything contained in this Agreement to the contrary, nothing in this Agreement, expressed or implied, is intended to or shall confer on any Person, other than Shareholder Group Members who from time to time own Subject Shares, the parties hereto or their respective permitted successors and assigns, any rights, benefits, remedies, obligations or liabilities whatsoever under or by reason of this Agreement; provided, that Shareholder Group Members who hold any Registrable Securities are intended third party beneficiaries of Article III and the Persons indemnified under Section 3.8 are intended third party beneficiaries of Section 3.8.

Section 8.5 Amendments. This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the Company and Shareholder.

Section 8.6 Entire Agreement. This Agreement constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, among the parties, or any of them, with respect thereto.

Section 8.7 Mediation; Governing Law; Jurisdiction; Waiver of Jury Trial.

(a) Mediation. The parties agree to submit any dispute, claim or controversy (a " Dispute") related to or arising out of this Agreement to mediation before a neutral mediator in Wilmington, Delaware, who will be requested to conduct informal, nonbinding mediation of the dispute. Each party will work with the other to select an acceptable mediator and to work with the mediator to resolve the dispute. The mediation process shall continue until the case is resolved or, if not resolved, until either the mediator makes a finding that there is no possibility of settlement through the mediation or one of the parties elects not to continue the mediation ("Mediation Termination").

(b) Litigation. In the event of a Mediation Termination, then such Dispute shall be resolved through legal action or proceeding in State of Delaware. Each party hereto irrevocably submits to the jurisdiction of the state and federal courts located in the State of Delaware, in any action or proceeding arising out of or relating to this Agreement, and each party hereby irrevocably agrees that all claims in respect of any such action or proceeding must be brought and/or defended in such court; provided, however, that matters which are under the exclusive jurisdiction of the Federal courts shall be brought in the Federal District Court for the District of Delaware and any court of appeal therefrom (the " Chosen Courts"); and each party hereby waives any obligation or requirement to post any bond on appeal. Each of the parties hereto agrees that service of process on such party as provided in Section 8.2 shall be deemed effective service of process on such party. Service made pursuant to the foregoing sentence shall have the same legal force and effect as if served upon such party personally within the State of Delaware, and each party irrevocably waives, to the fullest extent each may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court. **EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT IT MAY LEGALLY AND EFFECTIVELY DO SO, TRIAL BY JURY IN ANY SUIT, ACTION OR PROCEEDING ARISING HEREUNDER.**

(c) Governing Law. All disputes, claims or controversies arising out of or relating to this Agreement, or the negotiation, validity or performance of this Agreement, or the transactions contemplated hereby shall be governed by and construed in accordance with the Laws of the State of Delaware without regard to the principles of conflicts of law.

Section 8.8 Fees and Expenses. Except as otherwise provided herein, all costs and expenses incurred by a party hereto in connection with this Agreement and the transactions contemplated hereby shall be paid and borne by such party.

Section 8.9 Headings. Headings of the articles and sections of this Agreement are for the convenience of the parties only, and shall be given no substantive or interpretive effect whatsoever.

Section 8.10 Interpretation. In this Agreement, unless the context otherwise requires, words describing the singular number shall include the plural and vice versa, words denoting any gender shall include all genders and words denoting natural Persons shall include corporations, partnerships, and other entities and vice versa. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be understood to be followed by the words "without limitation."

Section 8.11 Waivers. No action taken pursuant to this Agreement, including, without limitation, any investigation by or on behalf of any party, nor any failure or delay on the part of any party hereto in the exercise of any right hereunder, shall be deemed to constitute a waiver by the party taking such action of compliance of any representations, warranties, covenants or agreements contained in this Agreement. The waiver by any party hereto of a breach of any provision hereunder shall not operate or be construed as a waiver of any prior or subsequent breach of the same or any other provision hereunder.

Section 8.12 Severability. Any term or provision of this Agreement that is invalid, illegal or unenforceable in any jurisdiction shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability without rendering invalid or unenforceable the remaining terms and provisions of this Agreement or affecting the validity or enforceability of any of the terms or provisions of this Agreement in any other jurisdiction. If any provision of this Agreement is so broad as to be unenforceable, the provision shall be interpreted to be only so broad as is enforceable.

Section 8.13 Enforcement of this Agreement. The parties hereto agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with its specific terms or was otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions (without requirement to post bond) to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in the Chosen Courts, this being in addition to any other remedy to which they are entitled at law or in equity.

Section 8.14 Counterparts. This Agreement may be executed by the parties hereto in two or more separate counterparts, each of which, when so executed and delivered, shall be deemed to be an original. All such counterparts shall together constitute one and the same instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

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

WATSCO, INC.

By: /s/ Barry S. Logan
Name: Barry S. Logan
Title: Senior Vice President

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

CARRIER CORPORATION

By: /s/ William F. Striebe
Name: William F. Striebe
Title: Vice President, Business Development

Annex I
Subject Shares

Shareholder	Number of Shares of Common Stock Held of Record	Certificate Humber	Number of Shares of Class B Common stock Held of Record	Certificate Number
Carrier Corporation	2,985,685	AU16261	94,784	BU4168

Exhibit 10.29

OPERATING AGREEMENT

OF

CARRIER ENTERPRISE NORTHEAST, LLC

Dated as of April 30, 2011

TABLE OF CONTENTS

OPERATING AGREEMENT

OF

CARRIER ENTERPRISE NORTHEAST, LLC

(AS OF APRIL 30, 2011)

THIS OPERATING AGREEMENT of CARRIER ENTERPRISE NORTHEAST, LLC (formerly known as "Carrier Enterprise II, LLC," and, for purposes of this Agreement, the "Company") is made as of April 30, 2011 by and among the Persons who become Members of the Company in accordance with the terms and provisions of this Agreement and whose names and signatures appear on counterpart signature pages to this Agreement or other equivalent instrument indicating such Member's agreement to be bound by the terms and provisions hereof.

R E C I T A L S

A. On April 21, 2011, the Company was formed as a limited liability company under the laws of the State of Delaware by filing a Certificate of Formation for the Company with the Secretary of State of Delaware.

B. On April 25, 2011, the Company changed its name to "Carrier Enterprise Northeast, LLC."

C. Pursuant to that certain Purchase and Contribution Agreement dated as of March 18, 2011 (" Purchase and Contribution Agreement "), (a) Carrier Corporation, a Delaware corporation (" Carrier"), contributed the Northeast Business Contributed Assets (as defined in the Purchase and Contribution Agreement) to the Company, as a contribution to the Company's capital, in exchange for Membership Interests and assumption by the Company of the Northeast Business Assumed Liabilities (as defined in the Purchase and Contribution Agreement); (b) Carrier transferred a number of Membership Interest to Carlyle Scroll Holdings Inc., a Delaware corporation and an affiliate of Carrier (the " 1% Holder"); (c) Carrier sold a number of Membership Interests (the "Interest Purchase") to Watsco Holdings III, LLC ("Holdings III"), a Delaware limited liability company and an indirect wholly-owned subsidiary of Watsco, Inc., a Florida corporation ("Watsco"); and (d) Watsco caused Holdings III to contribute the Homans Business Contributed Assets (as defined in the Purchase and Contribution Agreement) to the Company, as a contribution to the Company's capital, in exchange for Membership Interests and assumption by the Company of the Homans Business Assumed Liabilities (as defined in the Purchase and Contribution Agreement), following which transactions Carrier owns a thirty nine percent (39%) Percentage Interest, the 1% Holder owns a one percent (1%) Percentage Interest, and Holdings III owns a sixty percent (60%) Percentage Interest.

D. The parties acknowledge that, for United States federal income tax purposes, (a) each of the contributions of assets to the Company consummated pursuant to the Purchase and Contribution Agreement is intended to be treated as a contribution of property to the Company in exchange for a membership interest and (b) the Interest Purchase is intended to be treated as a sale of a membership interest in the Company.

E. As contemplated by the Purchase and Contribution Agreement, the Members desire to enter into this Operating Agreement in order to, among other things, formally establish the manner in which the business and affairs of the Company shall be managed and to determine their respective rights, duties and obligations with respect to the Company.

NOW, THEREFORE, in consideration of the premises and agreements of the parties set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members hereby agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.1 Certain Definitions.

As used herein, the following terms have the following meanings:

(a) "**1% Holder**" shall have the meaning set forth in Recital C.

(b) "**Act**" means the Delaware Limited Liability Company Act, Delaware Code, Title 6, §§ 18-101, et seq., as the same may be amended from time to time.

(c) "**Additional Capital Contribution**" means any Capital Contribution made by a Member in addition to such Member's Initial Capital Contribution.

(d) "**Additional Distribution**" has the meaning set forth in Section 9.3.

(e) "**Affiliate**" means, with respect to a specified Person, any Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the specified Person. As used in this definition, and elsewhere herein in relation to control of Affiliates, the term "**control**" means the possession, directly or indirectly, of the power to substantially direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, as director or manager, as trustee or executor, by contract or credit arrangement or otherwise. For the avoidance of doubt, neither Watsco (or its ultimate parent entity) nor any of its (or its ultimate parent entity's) Subsidiaries (other than, if

applicable, the Company and the Company's Subsidiaries) shall be deemed an Affiliate of a Carrier Holder for any purpose hereunder, and neither Carrier (or its ultimate parent entity) nor any of its (or its ultimate parent entity's) Subsidiaries (other than, if applicable, the Company and the Company's Subsidiaries) shall be deemed an Affiliate of a Watsco Holder for any purpose hereunder.

(f) "**Agreement**" means this Operating Agreement of Carrier Enterprise Northeast, LLC, as amended, modified, supplemented or restated from time to time.

(g) "**Ancillary Agreements**" has the meaning set forth in Section 16.01 of the Purchase and Contribution Agreement.

(h) The phrases "**Approved by**," "**Approval of**," "**Consent of**," "**Determined by**," or any equivalent, each mean, with respect to the Board, approval or consent as set forth in Section 4.5(f), and, with respect to the Members, approval or consent of or by the Members as set forth in Section 6.4(f).

(i) "**Board**" means the Board of Directors of the Company.

(j) "**Book Value**" of an asset means its adjusted basis for federal income tax purposes, subject to the following provisions. The initial Book Value of an asset contributed by a Member is its gross fair market value as initially recorded on the Company's books. Company Assets shall be revalued (i) when and as contemplated by Treasury Regulation Section 1.704-1(b)(2)(iv)(e), and, (ii) if the Board determines in its discretion that a revaluation is necessary to reflect economic arrangements among Members, when and as contemplated by Treasury Regulation Section 1.704-1(b)(2)(iv)(f). Upon any such revaluation, Book Values shall be adjusted to equal the revalued amounts. Book Values shall be reduced for cost recovery deductions, determined pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(g)(3).

(k) "**Business Day**" means any day, except a Saturday, Sunday or other day on which commercial banking institutions in New York City are authorized or directed by law or executive order to close.

(l) "**Business Plan**" means an annual business plan mutually acceptable to the parties that shall include a Company budget for the Fiscal Year covered by the Business Plan setting forth projected revenues and all projected costs and expenses for such Fiscal Year.

(m) "**Capital Account**" means the account maintained for a Member in accordance with the provisions of Section 3.2.

(n) "**Capital Contribution**" means the total cash and Book Value of other property contributed to the Company by a Member. The transfer of liabilities to the

Company within the meaning of Code § 752 in connection with a transfer of money or property to the Company, including, without limitation, liabilities that are secured by such other property that the Company is considered to assume or take subject to, shall reduce the net amount of the Capital Contribution by the amount of said liabilities.

(o) "**Carrier**" has the meaning set forth in Recital C.

(p) "**Carrier Deciding Member**" means Carrier, until such time as one or more Carrier Holders (other than Carrier) hold(s) a Percentage Interest which is greater than the Percentage Interest then held by Carrier; thereafter, "Carrier Deciding Member" shall mean, at any time, the Carrier Holder holding the greatest Percentage Interest at such time (or as may be otherwise agreed by the Carrier Holders). Notwithstanding anything to the contrary herein, the Carrier Deciding Member may, without limitation, assign all or any portion of its rights granted under this Agreement (including, without limitation, with respect to the purchase and/or Transfer of Membership Interests) to one or more Carrier Holders.

(q) **"Carrier Enterprise"** means Carrier Enterprise, LLC, a Delaware limited liability company.

(r) "**Carrier Holders**" means Carrier, the 1% Holder, any direct or indirect wholly-owned Subsidiary of Carrier's ultimate parent entity that is a Transferee of Membership Interests pursuant to Section 12.1(b).

(s) "**Carrier Offeror**" has the meaning set forth in Section 12.2(a).

(t) "**Carrier Scale-Down Percentage Interest**" has the meaning set forth in Section 4.2(a).

(u) "**Certificate**" means a certificate evidencing Membership Interests thereon held by a Member stamped or imprinted with legends as set forth in Section 7.3 and otherwise in a form approved by the Board from time to time.

(v) "**Certificate of Formation**" means the Certificate of Formation of the Company and any and all amendments thereto and restatements thereof filed on behalf of the Company with the office of the Delaware Secretary of State pursuant to the Act.

(w) "**Code**" means the Internal Revenue Code of 1986, and any successor statute, each as amended from time to time.

(x) "**Company**" shall have the meaning set forth in preamble.

(y) "**Company Assets**" means all of the assets of the Company and any property (real or personal) acquired in exchange therefor or in connection therewith.

(z) "**Company Minimum Gain**" has the same meaning as "partnership minimum gain" in Treasury Regulations Section 1.704-2(b)(2) and 1.704-2(d). A Member's share of Company Minimum Gain shall be computed in accordance with the provisions of Treasury Regulations Section 1.704-2(g).

(aa) "**Company Subsidiary**" means a Subsidiary of the Company.

(bb) "**Covered Person**" shall have the meaning set forth in Section 14.2(a).

(cc) "**Deciding Member**" means the Carrier Deciding Member and the Watsco Deciding Member.

(dd) "**Default Rule**" has the meaning set forth in Section 15.15.

(ee) "**Director**" means a Person who is listed as a director of the Company in this Agreement, or who becomes a substituted or additional director of the Company as herein provided and who is listed as a director in the books and records of the Company. For purposes of this Agreement and the management of Company affairs, the term "**Director**" shall have the same meaning ascribed to the term "manager" under the Act.

(ff) "**Dispute**" has the meaning set forth in Section 15.3(a).

(gg) "**Distributable Cash**" means, for any Fiscal Year, the cash proceeds from Company operations and from sales and dispositions of Company Assets (plus any reductions in amounts previously set aside as reserves to the extent previously reducing Distributable Cash) net of all Company expenses for such period and less any amounts reasonably set aside as and/or added to reserves for anticipated Company expenses, debt payments, capital improvements, replacements and contingencies, plus any reserves in respect of prior periods, all as Determined by the Board in accordance with the terms of this Agreement.

(hh) **"Distributor Agreements"** means any distributor agreements between the Company, on the one hand, and Carrier or Watsco (or any of its Affiliates), on the other hand, as in effect on the date hereof.

(ii) "**Election Notice**" has the meaning set forth in Section 12.3(a).

(jj) "**Entity**" means any corporation, partnership, limited liability company, unincorporated association, joint venture, firm and any other organization, association or other entity, and any trust or estate.

(kk) "**Exculpated Person**" shall have the meaning set forth in Section 14.1.

(ll) "**Final 1065**" shall have the meaning set forth in Section 11.3.

(mm) "**First Refusal Notice**" has the meaning set forth in Section 12.2(a).

(nn) "**Fiscal Quarter**" means any fiscal quarter of any Fiscal Year.

(oo) "**Fiscal Year**" means (i) the period commencing on the date of this Agreement and ending on December 31, 2011, (ii) any subsequent 12-month period commencing on January 1 and ending on December 31, or (iii) any portion of the period described in clause (i) or (ii) of this sentence for which the Company is required to allocate Profits, Losses and other items of Company income, gain, loss or deduction pursuant to ARTICLE 8 hereof.

(pp) "**Form 1065**" has the meaning set forth in Section 11.3.

(qq) "**Formation Date**" means April 21, 2011, the date on which the Certificate of Formation was filed with the Delaware Secretary of State.

(rr) "**GAAP**" has the meaning set forth in Section 11.1.

(ss) "**HVAC/R Products**" means heating and cooling products, systems, equipment, components, accessories and parts, and brands thereof, in each case to the extent identified as "Products" in any of the Distributor Agreements.

(tt) **"Holdings III"** has the meaning set forth in Recital C.

(uu) **"Homans Business Contributed Assets"** has the meaning set forth in Recital C.

(vv) **"Homans Business Assumed Liabilities"** has the meaning set forth in Recital C.

(ww) "**Indebtedness**" means, with respect to any Person, (i) indebtedness of such Person for borrowed money, (ii) other indebtedness of such Person evidenced by notes, bonds or debentures, (iii) capitalized leases classified as indebtedness of such Person under GAAP, (iv) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (v) any obligation of such Person for the deferred purchase price of property or services (other than trade payables and other current liabilities), (vi) any Indebtedness of another Person referred to in clauses (i) through (v) above guaranteed directly or indirectly, jointly or severally, in any manner by such Person, (vii) any Indebtedness referred to in clauses (i) through (v) above secured by (or for which the holder of such Indebtedness

has an existing right, contingent or otherwise, to be secured by) any lien or encumbrance on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, and (viii) the maximum amount of all direct or contingent obligations of such Person with respect to letters of credit, bankers' acceptances, bank guaranties, surety bonds or similar facilities or instruments.

(xx) "**Initial Capital Contribution**" has the meaning set forth in Section 3.1(a).

(yy) "**Initial Distribution**" shall have the meaning set forth in Section 9.3.

(zz) "**Interest Purchase**" has the meaning set forth in Recital C.

(aaa) "**Interested Transaction**" means, with respect to a Person, any transaction or agreement (including, but not limited to, the purchase, sale, lease, or exchange of any property or the rendering of any service, or the establishment of any salary, other compensation, or other terms of employment) with any Affiliate of such Person.

(bbb) "**Liquidating Trustee**" has the meaning set forth in Section 10.3.

(ccc) "**Major Decision**" has the meaning set forth in Section 6.3(a).

(ddd) "**Mediation Termination**" has the meaning set forth in Section 15.3(b).

(eee) "**Member**" means each Person who is admitted as a Member of the Company and listed on Schedule A and each additional Person who shall hereafter be admitted as a Member hereof in accordance with the provisions of this Agreement.

(fff) "**Membership Interest**" and "**Membership Interests**" shall mean the limited liability company interest(s) of a Member in the Company, as set forth opposite such Member's name on Schedule A hereto from time to time, including such Member's share of the Profits and Losses of the Company, and also the right of such Member to any and all of the benefits to which such Member may be entitled as provided in this Agreement and in the Act, together with the obligations of such Member to comply with all the provisions of this Agreement and of the Act. The Company shall maintain records indicating the owners of record of the Membership Interests. Membership Interests shall be certificated and evidenced by Certificates as set forth in Section 7.3. The Company may issue whole or fractional Membership Interests.

(ggg) "**Member Minimum Gain**" means an amount, with respect to each Member Nonrecourse Debt, equal to the Company Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Treasury Regulations Section 1.704-2(i)(3).

(hhh) "**Member Nonrecourse Debt**" has the same meaning as the term "partner nonrecourse debt" in Treasury Regulations Section 1.704-2(b)(4).

(iii) "**Nonrecourse Liability**" shall have the meaning set forth in Treasury Regulations Section 1.704-2(b)(3).

(jjj) "**Offer**" shall have the meaning set forth in Section 12.2(a).

(kkk) "**Offeree Notice**" shall have the meaning set forth in Section 12.2(a).

(lll) "**Offerees**" shall have the meaning set forth in Section 12.2(a).

(mmm) "**Offeror**" shall have the meaning set forth in Section 12.2(a).

(nnn) "**Percentage Interest**" means, with respect to any Member at any time, a fraction, expressed as a percentage, the numerator of which is the number of Membership Interests held by such Member at such time and the denominator of which is the total number of Membership Interests held by all Members at such time.

(ooo) "**Permitted Lien**" shall mean a lien, mortgage, pledge, security interest or similar encumbrance of a Member's Membership Interests granted to a lender or lenders (or agent for a lender or lenders) to secure any obligations under any credit agreements and/or related documents in respect of any loan to the Member and/or any of such Member's direct or indirect wholly-owned Subsidiaries (or, so long as such Member is, directly or indirectly, a wholly-owned Subsidiary of its ultimate parent entity, such ultimate parent entity's direct or indirect wholly-owned Subsidiaries).

(ppp) "**Permitted Transferee**" shall have the meaning set forth in Section 12.1(b).

(qqq) "**Person**" means any natural person or Entity.

(rrr) "**Profit**" or "**Loss**" means, for any period, an amount equal to the Company's taxable income or loss for such period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments: (i) any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profit or Loss shall be added to such taxable income or loss; (ii) any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv),

shall be subtracted from such taxable income or loss; (iii) in lieu of the amounts of depreciation, amortization or other cost recovery deductions taken into account in computing such taxable income or loss, the amounts taken into account shall be the amounts determined in the manner provided in Treasury Regulations Section 1.704-1(b)(2)(iv)(g)(3); (iv) In the event the Book Value of any asset is adjusted pursuant to the definition of Book Value, the amount of such adjustment shall be taken into account as gain (if the adjustment increases the Book Value of an asset) or loss (if the adjustment decreases the Book Value of an asset) from the disposition of such asset for purposes of computing Profit or Loss; (v) in lieu of any tax gain or tax loss recognized by the Company with respect to the disposition of an asset, there shall be taken into account gain or loss recognized by the Company for book purposes under the principles of Treasury Regulations Section 1.704-1(b)(2)(iv), computed by reference to the Book Value of the asset as of the date disposition rather than by reference to the tax basis of the asset; (vi) to the extent an adjustment to the adjusted tax basis of any asset pursuant to Section 734(b) of the Code is required, pursuant to Treasury Regulation Section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution other than in liquidation of a Membership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) from the disposition of such asset and shall be taken into account for purposes of computing Profit or Loss; and (vii) items of income, gain, loss, or deduction allocated separately pursuant to Section 8.4 hereof shall be excluded from the computation of Profit or Loss. If the Company's taxable income or loss for such period, as adjusted in the manner provided above, is a positive amount, such amount shall be the Company's Profit for such period, and if negative, such amount shall be the Company's Loss for such period.

(sss) "**Proposed 1065**" shall have the meaning set forth in Section 11.3.

(ttt) "**Purchase and Contribution Agreement**" has the meaning set forth in Recital C.

(uuu) "**Regulatory Allocations**" shall have the meaning set forth in Section 8.4(b).

(vvv) "**Requisite Members**" means, the Carrier Deciding Member and the Watsco Deciding Member; provided, that if (i) the Percentage Interest owned by the Carrier Holders, in the aggregate, ceases to be at least ten percent (10%), Requisite Members shall be deemed to be the Watsco Deciding Member, and (ii) the Percentage Interest owned by the Watsco Holders, in the aggregate, ceases to be at least ten percent (10%), Requisite Members shall be deemed to be the Carrier Deciding Member.

(www) "**Resolution of the Board**" means a resolution Approved by the Board.

(xxx) **"Revolving Credit Agreement"** shall have the meaning set forth in Section 8.21 of the Purchase and Contribution Agreement.

(yyy) "**Subsidiary**" means, with respect to any Person, (i) any corporation fifty percent (50%) or more of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation is at the time owned by such Person, directly or indirectly through one or more Subsidiaries, and (ii) any other Person, including but not limited to a joint venture, a general or limited partnership or a limited liability company, in which such Person, directly or indirectly through one or more Subsidiaries, at the time owns at least fifty percent (50%) or more of the ownership interests entitled to vote in the election of managing partners, managers or trustees thereof (or other Persons performing such functions) or acts as the general partner, managing member, trustee (or Persons performing similar functions) of such other Person.

(zzz) "**Tag Notice**" shall have the meaning set forth in Section 12.3.

(aaaa) "**Tag Sale**" shall have the meaning set forth in Section 12.3.

(bbbb) "**Tag Seller**" shall have the meaning set forth in Section 12.3.

(cccc) "**Tax Distributions**" shall have the meaning set forth in Section 9.3.

(dddd) "**Tax Matters Member**" shall have the meaning set forth in Section 11.4(a).

(eeee) "**Tax Rate**" means, in respect of any item of taxable income for any period, the highest marginal blended rate of federal, state and local income, franchise and other similar Taxes applicable to any Member in respect of such item for such period, taking into account the character of such item of income.

(ffff) "**Term**" shall have the meaning set forth in Section 2.3.

(gggg) "Transfer" means the voluntary or involuntary sale, assignment, transfer (by gift or otherwise), lien, mortgage, pledge, grant of a security interest, encumbrance, hypothecation, grant of a participation interest or other disposition or conveyance of legal or beneficial interest, directly or indirectly, whether in one transaction or in a series of related transactions. Nothing herein shall be deemed to prevent a change of control of, or any other transfer of capital stock or other equity interests in, a Watsco Holder or a Carrier Holder, provided, that any such transaction does not primarily involve a change of control of, or any other transfer of capital stock or other equity interests in, a Watsco Holder or a Carrier Holder, when such Watsco Holder's or Carrier Holder's assets are primarily composed of Membership Interests.

(hhhh) "**Transferee**" means any Person that is a transferee of Membership Interests in the Company.

(iiii) "**Transferor**" means any Member that proposes to Transfer or does Transfer Membership Interests in the Company.

(jjjj) "**Treasury Regulations**" means the income tax regulations, including temporary regulations and corresponding provisions of succeeding regulations, promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

(kkkk) "**Watsco**" has the meaning set forth in Recital C.

(llll) "**Watsco Deciding Member**" means Holdings III, until such time as one or more Watsco Holders (other than Holdings III) hold(s) a Percentage Interest which is greater than the Percentage Interest then held by Holdings III; thereafter, "Watsco Deciding Member" shall mean, at any time, the Watsco Holder holding the greatest Percentage Interest at such time (or as may be otherwise agreed by the Watsco Holders). Notwithstanding anything to the contrary herein, the Watsco Deciding Member may, without limitation, assign all or any portion of its rights granted under this Agreement (including, without limitation, with respect to the purchase and/or Transfer of Membership Interests) to one or more Watsco Holders.

(mmmm) "**Watsco Holders**" means Holdings III and any direct or indirect wholly-owned Subsidiary of Watsco that is a Transferee of Membership Interests pursuant to Section 12.1(b).

(nnnn) "**Watsco Offeror**" has the meaning set forth in Section 12.2(a).

(oooo) "**Watsco Scale-Down Percentage Interest**" has the meaning set forth in Section 4.2(a).

Section 1.2 Construction.

The headings and subheadings in this Agreement are included for convenience and identification and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof. Whenever the context requires, the gender of all words used in this Agreement includes the masculine, feminine and neutral forms and the singular form of words shall include the plural and vice versa. All references to Articles and Sections refer to articles and sections of this Agreement, and all references to Schedules are to Schedules attached hereto, each of which is made a part hereof for all purposes.

ARTICLE 2
ORGANIZATIONAL MATTERS

Section 2.1 Formation.

The Members hereby confirm the formation of the Company as of the Formation Date as a limited liability company under and pursuant to the provisions of the Act and all other pertinent laws of the State of Delaware for the purposes and upon the terms and conditions hereinafter set forth. The parties hereto agree that the rights, duties, and liabilities of the Members, and any additional Members admitted to the Company in accordance with the terms hereof, shall be as provided in the Act, except as otherwise provided herein.

Section 2.2 Name.

The name of the Company is Carrier Enterprise Northeast, LLC, or such other name as the Board may designate from time to time in compliance with the Act and subject to Section 6.3(a). The business of the Company shall be conducted in that name or in such other names as the Board may designate from time to time in compliance with applicable law. In territories in which the Company does not have the right, granted by Carrier, to distribute Carrier-branded HVAC/R Products, the Company may only conduct business under a trade name that does not include the word "Carrier."

Section 2.3 Term.

The Term of the Company commenced on the Formation Date and shall continue in existence until wound up and liquidated as set forth in ARTICLE 10 or as otherwise provided by law (the "Term").

Section 2.4 Purposes.

The purposes of the Company shall be: (a) to engage in the sale of HVAC/R Products; (b) to engage in, operate and manage such business activities and to take any and all such action as the Board determines to be necessary and appropriate in connection therewith; and (c) to enter into any lawful transaction and contracts and engage in any lawful activities consistent with and in furtherance of the foregoing purposes, in each case subject to Section 6.3.

Section 2.5 Powers of the Company.

Subject to the limitations set forth in this Agreement, the Company will possess and may exercise all of the powers and privileges granted to it by the Act, by any other applicable law or this Agreement, together with all powers incidental thereto, so far as such powers are necessary or convenient to the conduct, promotion, or attainment of the purposes of the Company set forth in Section 2.4.

Section 2.6 Maintenance of Separate Existence.

The Company shall do all things necessary to maintain its limited liability company existence separate and apart from the existence of each Member and any other Person, including, without limitation, maintaining the Company's books and records on a current basis separate from that of any other Person.

Section 2.7 Members.

The name and mailing address of each Member shall be listed on Schedule A attached hereto. Additional Members shall be admitted as Members of the Company only in accordance with the provisions of this Agreement, including, without limitation, ARTICLE 12 and ARTICLE 13. The Board, or a designee of the Board, shall update Schedule A from time to time as necessary to accurately reflect any amendment thereto.

Section 2.8 Registered Agent and Office.

The Company's registered office and the name and address of the registered agent of the Company for service of process on the Company in the State of Delaware is Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19809. At any time, the Board may designate another registered agent and/or registered office.

Section 2.9 Principal Place of Business.

The principal place of business of the Company is in New York, New York. The Board may change the location of the Company's principal place of business, which may be either inside or outside of the State of Delaware.

Section 2.10 Title to Company Assets.

All Company Assets shall be deemed to be owned by the Company as an entity, and no Member, individually, shall have any direct ownership interest in the Company Assets. Each Member, to the extent permitted by applicable law, hereby waives its rights to a partition of the Company Assets and, to that end, agrees that it will not seek or be entitled to a partition of any assets, whether by way of physical partition, judicial sale or otherwise, except as otherwise expressly provided herein.

Section 2.11 Filings.

Each officer designated by the Board as an authorized person, within the meaning of the Act, shall execute, deliver and file, or cause the execution, delivery and filing of, any amendments or restatements of the Certificate of Formation and any other certificates, notices, statements or other instruments (and any amendments or statements

thereof) necessary or, in the Board's view, advisable for the formation of the Company or the operation of the Company in all jurisdictions where the Company may elect to do business, but no such amendment or restatement may be executed, delivered or filed unless adopted in a manner authorized by this Agreement. The Members promptly shall execute and deliver such documents and perform such acts consistent with the terms of this Agreement as may be reasonably necessary to comply with the requirements of law for the formation, qualification and continuation of existence of a limited liability company under the laws of each jurisdiction in which the Company shall conduct business.

Section 2.12 Interested Transactions.

The Company and/or any Company Subsidiary may engage in any Interested Transaction so long as the following conditions are satisfied: (a) the Interested Transaction is not expressly prohibited by this Agreement and, if Major Decisions then require the affirmative vote or consent of the Requisite Members pursuant to the terms of Section 6.3(a), the Interested Transaction has been approved in accordance with Section 6.3; and (b) either (i) the Interested Transaction is in the ordinary course of business at prices and on terms and conditions not less favorable to the Company or such Company Subsidiary than could be obtained on an arm's-length basis from unrelated third parties or (ii) the Interested Transaction is with Carrier or any of its Affiliates. The parties acknowledge that the transactions contemplated in the Purchase and Contribution Agreement and the Ancillary Agreements in each case satisfy the conditions specified in this Section 2.12.

ARTICLE 3
CAPITAL CONTRIBUTIONS AND CAPITAL ACCOUNTS

Section 3.1 Capital Contributions.

(a) Upon the execution hereof, each Member will contribute or be deemed to contribute to the capital of the Company as such Member's Initial Capital Contribution the amount set forth opposite his or her name on Schedule A attached hereto (as to each Member, the "Initial Capital Contribution").

(b) Except as specifically provided in this Agreement, no Member shall receive any interest, salary or drawing with respect to its Capital Contributions or its Capital Account or otherwise in his, her or its capacity as a Member. Except as otherwise expressly provided herein or with the prior Approval of the Board, no Member will be permitted to borrow, make an early withdrawal of or demand or receive a return of any Capital Contributions.

(c) Except as otherwise expressly provided herein, no Member shall be required to make any Additional Capital Contributions to the capital of the Company, nor shall any Member be permitted to make any Additional Capital Contributions except pursuant to the issuance of additional Membership Interests by the Company in accordance with ARTICLE 13.

Section 3.2 Capital Accounts.

A Capital Account shall be established and maintained for each Member in accordance with Code § 704(b) and the Treasury Regulations thereunder, including Treasury Regulation § 1.704-1(b)(2)(iv). Each Member's Capital Account shall initially reflect such Member's Initial Capital Contribution. Schedule A sets forth each Member's Capital Account balance as of the date hereof.

(a) Without limiting the generality of the foregoing, Capital Accounts will be increased by:

(i) Any Additional Capital Contributions made by a Member;

(ii) Allocations to the Members of Profits and any items in the nature of income or gain that are allocated to such Members pursuant to Section 8.2; and

(iii) Company liabilities assumed by such Member as provided in Treasury Regulation § 1.704-1(b)(2)(iv)(c)(1).

(b) The Capital Account of the Members will be decreased by:

(i) The amount of distributions of Distributable Cash made to Members by the Company;

(ii) The Book Value of property distributed to the Members by the Company (net of liabilities that are secured by such property that such Member is considered to assume or take subject to, under Code § 752);

(iii) Allocations to the Members of Losses and any items in the nature of loss or deduction that are allocated to such Member pursuant to Section 8.2; and

(iv) Member liabilities assumed by the Company as provided in Treasury Regulation § 1.704-1(b)(2)(iv)(c)(2).

(c) In the event of a Transfer of all or a part of a Member's Membership Interests in the Company, the Capital Account of the Transferor shall become the Capital Account of the Transferee to the extent it is attributable to the transferred Membership Interests in accordance with Treasury Regulation § l.704-l(b)(2)(iv)(l).

(d) Except as otherwise required in the Act, no Member shall have any liability to restore all or any portion of a deficit balance in such Member's Capital Account.

(e) A Member shall not receive out of Company Assets any part of such Member's Capital Contributions or Capital Account balance to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the Company, other than liabilities to Members on account of their Membership Interests and liabilities for which the recourse of creditors is limited to specified property of the Company, exceed the fair value of the assets of the Company, except that the fair value of property that is subject to a liability for which the recourse of creditors is limited shall be included in the assets of the Company only to the extent that the fair value of that property exceeds that liability; and provided that for purposes of this Section 3.2(e), the term "distribution" shall not include amounts constituting reasonable compensation for present or past services or reasonable payments made in the ordinary course of business pursuant to a bona fide retirement plan or other benefits program.

(f) The Board may cause Capital Accounts to be revalued in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv)(f) including, but not limited to, upon the admission of additional Members to the Company, if such a revaluation is necessary to reflect the economic arrangement of all Members.

ARTICLE 4
BOARD OF DIRECTORS

Section 4.1 Authority of the Board.

Except as otherwise provided in this Agreement, the business and affairs of the Company shall be controlled, directed and managed exclusively by the Board. Except when the Approval of the Members (or the Requisite Members) is expressly required by the Act, the Certificate of Formation or this Agreement, the Board shall have full, complete and exclusive authority, power, and discretion to manage and control the business, property and affairs of the Company, to make all decisions regarding those matters and to perform any and all other acts or activities customary or incident to the management of the Company's business, property and affairs. The Board shall be responsible, without limitation, at its meetings for (i) review of the performance by the Company's management, (ii) review, approval and update of the Company's annual operating plan and the Company's needs and requirements for growth and development of market share, (iii) review of the Company's financial performance, business issues and opportunities, (iv) distributions and (v) review of leadership and succession, in each case subject to Section 6.3.

Section 4.2 Composition of the Board.

(a) For so long as the Percentage Interest held by the Carrier Holders, in the aggregate, is at least twenty percent (20%) (the " Carrier Scale-Down Percentage Interest") and the Percentage Interest held by the Watsco Holders, in the aggregate, is at least fifty percent (50%) (the " Watsco Scale-Down Percentage Interest"), the Board shall be composed of five (5) Directors, of whom two (2) Directors shall be designated by the Carrier Deciding Member and three (3) Directors shall be designated by the Watsco Deciding Member. Notwithstanding the forgoing, the number of Directors constituting the entire Board may be increased or decreased beyond the number set forth above from time to time by Approval of the Board, subject to Section 6.3; provided, that, so long as the Percentage Interest of the Carrier Holders is equal to or greater than the Carrier Scale-Down Percentage Interest, in the case of any increase or decrease in the number of Directors constituting the entire Board, the composition of the Board shall be adjusted to provide the Carrier Deciding Member with the right to designate the whole number (rounding up) of Directors that is closest to forty percent (40%) of the entire Board.

(b) Following such time as the Percentage Interest held by the Carrier Holders is less than the Carrier Scale-Down Percentage Interest, the number of Directors designated by the Carrier Deciding Member shall be reduced to the whole number (rounding up) of Directors that is closest to the product of (i) the Percentage Interest held by the Carrier Holders at such time and (ii) the number of Directors constituting the entire Board. Any Directors with respect to whom the Carrier Deciding Member's designation rights are terminated pursuant to this Section 4.2(b), shall be removed from the Board as of the date of such termination of such designation rights. In such event, the replacements of such removed Directors shall be determined by the Approval of the Members.

(c) Following such time as the Percentage Interest held by the Watsco Holders is less than the Watsco Scale-Down Percentage Interest, the Watsco Deciding Member shall only be entitled to designate the whole number (rounding up) of Directors that is closest to the product of (i) the Percentage Interest held by the Watsco Holders at such time and (ii) the number of Directors constituting the entire Board. Any Directors with respect to whom the Watsco Deciding Member's designation rights are terminated pursuant to this Section 4.2(c), shall be removed from the Board as of the date of such termination of such designation rights. In such event, the replacements of such removed Directors shall be determined by the Approval of the Members.

Section 4.3 Resignation and Removal.

(a) Subject to Section 4.2, any Director may resign at any time by giving written notice of his or her resignation to the Board. A resignation shall take effect at the time specified therein or if no time is specified therein, immediately upon its receipt, and, unless otherwise specified therein, the acceptance of a resignation shall not be necessary to make it effective.

(b) Each Member may remove any Director designated by it at any time, with or without cause, effective upon written notice to the other Members and the President of the Company.

(c) Any vacancy on the Board resulting from the removal or resignation, death, retirement or disability of any Director shall be filled by the Member that designated such Director, which designation shall become effective upon written notice to the other Members and the President of the Company. If such Member fails to fill the vacancy, the directorship will remain vacant until such time that such vacancy is filled by the Member who designated such Director.

Section 4.4 Compensation.

Subject to Section 6.3, as Determined by the Board, the Directors may be paid their expenses, if any, of attendance at each meeting of the Board and may be paid a fixed sum for attendance at each meeting of the Board or a stated salary as Director. No such payment shall preclude any Director from serving the Company in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 4.5 Meetings of the Board.

(a) Quarterly Meetings; Calling of Meetings; Notice . The Board shall hold regular meetings at such times as may be specified by it but no less often than quarterly. Special meetings of the Board may be called at any time and for any purpose or purposes by (i) the President or his designee or by Resolution of the Board in which at least a majority of all Directors call for such meeting, or (ii) by any Member. Subject to the notice provisions set forth in Section 15.2, notice of the place, date and hour of each meeting of the Board will be given by registered or certified mail, by nationally recognized overnight delivery service, by telephone (which shall be deemed given upon oral acknowledgment by the Director receiving notice), by facsimile or by personal delivery, or by email, to each Director entitled to vote at the meeting, not fewer than three (3) Business Days prior to the meeting, and in any case not more than thirty (30) days prior to the meeting. A notice shall state, in general terms, the purpose or purposes for the calling of a meeting. If such notice is mailed, emailed or sent by overnight delivery service, it will be directed to each Director at such Director's address as it appears on the record of Directors, or, if a Director had filed with the Company a written request that notices to such Director be sent to some other address, then directed to such Director at such other address. Notice of a meeting need not be given to any Director who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes of such meeting, whether before or after the meeting, or who participates in the meeting without protesting, prior to the commencement of such Director's participation in the meeting, the lack of notice to such Director. All such waivers, consents and approvals shall be filed with the Company records or made a part of the minutes of the meeting.

(b) Time and Place of Meetings. Meetings of the Board may be held at any place within or without the State of Delaware which has been designated in the notice of the meeting or at such place as may be Approved by the Board.

(c) Quorum. A majority of Directors shall constitute a quorum of the Board for the transaction of business. The Directors present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the loss of a quorum.

(d) Adjourned Meetings. A majority of the Directors present, whether or not a quorum is present, may adjourn any meeting to another time and place. If the meeting is adjourned for more than twenty-four (24) hours, notice of such adjournment shall be given prior to the time the adjourned meeting is to be resumed to all Directors who were not present at the time of the adjournment.

(e) Telephonic Participation by Directors at Meetings. Directors may participate in a meeting through the use of conference telephone or similar communications equipment, so long as all Directors participating in such meeting can hear one another. Participation in a meeting in such manner constitutes presence in person at such meeting.

(f) Approval of the Board.

(i) At a Meeting. Unless specifically provided otherwise by law or this Agreement, whenever the Board is entitled to vote on any matter or exercise any power under this Agreement, such matter shall be considered approved or consented to upon the receipt of the affirmative vote of at least a majority of all Directors entitled to vote thereon, with each Director having one (1) vote. Except in such person's capacity as an officer of the Company, as provided in Section 2.11, no Director acting individually shall have the authority or right to act on behalf of, or to take any action to bind, the Company in connection with any matter, except as provided in this Agreement.

(ii) Conduct of Disputes. Notwithstanding anything to the contrary in this Agreement, (A) only Directors designated by Watsco shall be entitled to vote on any matter relating to the conduct and settlement of any claim, action, suit, proceeding or dispute between the Company, and/or any of its Subsidiaries, on the one hand and Carrier, and/or any of its Affiliates, on the other hand, and (B) only Directors designated by Carrier shall be entitled to vote on any matter relating to the conduct and settlement of any claim, action, suit, proceeding or dispute between the Company, and/or any of its Subsidiaries, on the one hand and Watsco, and/or any of its Affiliates, on the other hand.

(iii) By Written Consent. Any action required or permitted to be taken by the Board may be taken by the Directors without a meeting, if a consent in writing, setting forth the action so taken, is signed by all Directors.

(iv) Matters Requiring Approval. The Company may not, without Approval of the Board, engage, directly or indirectly, including, without limitation, through one or more Subsidiaries of the Company, and shall cause its Subsidiaries not to engage, in any transaction or series of related transactions or take any action, which if engaged in or taken by a corporation under the Delaware General Corporation Law would require action by the board of directors of that corporation, other than transactions in the ordinary course of the Company's business.

Section 4.6 No Exclusivity of Duty to Company.

Except as otherwise provided herein, no Director shall be required to serve on the Board as his or her sole and exclusive function and such Director may engage in or possess any interest in another business or venture of any nature and description, independently or with others, and neither the Company nor any Member shall have any rights in or to any such independent ventures or the income or proceeds derived therefrom. Directors shall not incur any liability to the Company or to any of the Members as a result of engaging in any other business or venture. Any Director shall be able to transact business or enter into agreements with the Company to the fullest extent permissible under the Act, subject to the terms and conditions of this Agreement.

Section 4.7 Equity Plans.

Subject to Section 6.3, the Board is authorized to (i) adopt such equity option plans, restricted equity plans and other rights plans as it shall deem necessary from time to time and (ii) grant such options, equity interests and other rights under such plans to such persons, including officers, directors, employees, consultants and others, as the Board may Approve.

ARTICLE 5
OFFICERS

Section 5.1 Appointment and Removal of Officers.

(a) The Board shall Approve the appointment of the officers of the Company on an annual basis. The officers of the Company shall consist of a President, a Chief Financial Officer, a Secretary, and other officers, including but not limited to one or more Vice Presidents, and assistant and subordinate officers as the Board may deem necessary, each of whom shall hold their offices for one-year terms and shall exercise such powers and perform such duties as shall be Determined from time to time by the Board until their successors are appointed and qualified. Any officer or agent selected or appointed by the Board may be removed at any time, with or without cause, by

Resolution of the Board, provided, however, that if the officer that is subject to removal is also a Director of the Company, he or she shall be permitted to vote at the meeting of the Board, or through a written consent, taken in connection with such officer's removal. Vacancies of officer positions shall be filled by Approval of the Board. The salaries, other compensation and business expense reimbursement of all officers and agents of the Company shall be Determined and fixed by the Board. Unless otherwise expressly approved herein, subject to Approval of the Board, any two or more offices may be held by the same Person.

(b) In addition, notwithstanding anything to the contrary contained herein, an officer may not be removed without cause unless by Resolution of the Board in which at least a majority of all Directors approve the removal.

Section 5.2 Chairman of the Board.

The Board shall appoint a Director to act as Chairman of the Board. The Chairman of the Board shall preside at all meetings of the Members and of the Board at which he is present, subject to the ultimate authority of the Board to appoint an alternate presiding officer at any meeting. The Chairman of the Board may be an officer of the Company if so designated by the Board and shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by the Board.

Section 5.3 President.

The President shall have general supervision and control over, and responsibility for, the day-to-day operations of the Company, subject to the ultimate authority of the Board, and shall have such other powers and shall perform such other duties as may from time to time be assigned to him or her by the Board. The initial President shall be the person Determined by the Requisite Members. The initial President shall serve for a one-year term commencing on the date of execution hereof unless the Requisite Members agree otherwise.

Section 5.4 Chief Financial Officer.

The Chief Financial Officer shall have such other powers and shall perform such other duties as may from time to time be assigned to the Chief Financial Officer by the President and by the Board. The initial Chief Financial Officer shall be the person Determined by the Requisite Members. The initial President shall serve for a one-year term commencing on the date of execution hereof unless the Requisite Members agree otherwise.

Section 5.5 Vice Presidents.

One or more Vice Presidents shall perform such duties and have such powers as may from time to time be assigned to them by the President or the Board. In

the absence or disability of the President, the President's duties will be performed and powers may be exercised by one or more such Vice Presidents, as will be designated by the Board.

Section 5.6 Secretary.

The Secretary will attend all meetings of the Members and the Board will record all votes and the minutes of all proceedings in a book to be kept for that purpose, unless the Members or the Board, as applicable, designate another person for such purpose. Unless otherwise provided in this Agreement, the Secretary will attend to the giving of notice of all meetings of the Members and the Board, have custody of the company seal and, when authorized by the Board, will have authority to affix the same to any instrument and, when so affixed, it will be attested by the Secretary's signature or by the signature of the President, the Chief Financial Officer or an Assistant Secretary.

Section 5.7 Authority and Duties of the Officers.

The Members hereby grant authority and responsibility for the day-to-day operation of the business and affairs of the Company to the officers. Any action required by this Agreement to be performed by the Company shall be deemed to have been taken by the Company if such action is approved by the Board and taken or approved by the President or other authorized officer, unless otherwise indicated in this Agreement. The officers, to the extent of their powers set forth in this Agreement or in a Resolution of the Board, are agents of the Company for the purposes of the Company's business, and the actions of the officers taken in accord with such powers shall bind the Company. Any agreement, deed, lease, note or other document or instrument executed on behalf of the Company by the President or other authorized officer as Approved by the Board, shall be deemed to have been duly executed; no other person's signature shall be required in connection with the foregoing and third parties shall be entitled to rely upon the President's or other authorized officer's power to bind the Company without otherwise ascertaining that the requirements of this Agreement have been satisfied. Notwithstanding the foregoing grant of authority to the officers, no act shall be taken, sum expended, decision made or obligation incurred by the officers (a) which requires for its authorization and/or implementation, the vote, approval or consent of Members pursuant to the Act, or (b) which constitutes a matter designated for Approval of the Board or the Members under this Agreement.

ARTICLE 6
MEMBERS

Section 6.1 Power of Members.

Except as expressly provided in this Agreement or the Act, no Member shall take any part in the management of the business or transact any business for the Company or shall have any power, solely in its capacity as a Member, to sign for, act for,

bind, or assume any obligation or responsibility on behalf of, any other Member or the Company; provided, however, that the Members shall have the voting, approval and consent rights as described in this Agreement and as provided under the Act. Except as specifically provided in this Agreement, with respect to any action of the Company submitted to a vote of the Members, any Member may vote or refrain from voting for or against any such action of the Company, in such Member's sole and absolute discretion.

Section 6.2 Other Activities

(a) Any Member may engage in or possess any interest in another business or venture of any nature and description, independently or with others, and neither the Company nor any other Member shall have any rights in or to any such independent ventures or the income or proceeds derived therefrom. Any Member shall be able to transact business or enter into agreements with the Company to the fullest extent permissible under the Act, subject to the terms and conditions of this Agreement.

(b) If a Member (or any Director appointed by such Member) acquires knowledge of a potential transaction or matter which may be a business opportunity for both such Member and the Company or another Member, such Member (and its Director designees) shall have no duty to communicate or offer such business opportunity to the Company or any other Member and shall not be liable to the Company or the other Members for breach of any duty (including, without limitation, fiduciary duties) as a Member or Director of the Company by reason of the fact that such Member or Director pursues or acquires such business opportunity for itself, directs such opportunity to another Person, or does not communicate information regarding such opportunity to the Company.

(c) In connection with the exercise of any voting rights pursuant to this Agreement, a Member may consider its own best interests when determining how to cast its vote and shall in no event be deemed to have any fiduciary duty to any other Member or to the Company.

(d) Holdings III shall not, and shall procure that its Affiliates do not, amend or alter the Revolving Credit Agreement, or any lien, mortgage, pledge, security interest or similar encumbrance entered into or granted in connection with the Revolving Credit Agreement in any way that, (i) directly or indirectly reverses or otherwise alters the effect of Amendment No. 2 to Revolving Credit Agreement dated March 30, 2011, by and among Watsco, certain Subsidiaries of Watsco, Bank of America N.A., in its capacity as administrative agent for the lenders parties thereto, and the lenders party thereto, on the Company or any of its Subsidiaries, or (ii) imposes obligations or liabilities, or otherwise has a direct adverse impact, on the Company or any of its Subsidiaries.

Section 6.3 Actions Requiring Approval of the Requisite Members.

(a) Notwithstanding anything in this Agreement to the contrary, for so long as the Percentage Interest owned by the Carrier Holders, in the aggregate, or the Watsco Holders, in the aggregate, is at least twenty percent (20%), the Company shall not, and shall cause its Subsidiaries not to, take, cause to be taken, or agree to or authorize, any of the following actions (each, a " Major Decision" and collectively, the "Major Decisions"), without the affirmative vote or consent of the Requisite Members (it being understood that the thresholds below shall apply to the Company and its Subsidiaries in the aggregate):

(i) the entry into any new line of business outside of its existing business, including but not limited to any change in the scope of the business purpose of the Company beyond the sale of HVAC/R Products;

(ii) the entry into an agreement to effect, or, in the absence of such an agreement, the consummation, of any merger, sale of all or substantially all of the assets of the Company, consolidation, reorganization, joint venture or alliance involving a material amount of assets of the Company, or similar transaction;

(iii) the entry into an agreement to effect, or, in the absence of such an agreement, the consummation of any acquisition (A) with an aggregate purchase price (including, without limitation, the assumption of liabilities) in excess of $5 million in the aggregate in any Fiscal Year or (B) reasonably expected to generate cash flow in excess of $1 million in the aggregate in any Fiscal Year;

(iv) any divestiture, sale or other disposal of any investments, properties or assets in a single transaction or a series of related transactions in excess of $5 million in the aggregate in any Fiscal Year;

(v) the incurrence or assumption of any Indebtedness or other obligation with respect to any such Indebtedness other than (A) in the ordinary course of the business or (B) amounts not in excess of $25 million in the aggregate outstanding at any given time;

(vi) the creation or imposition of any lien, mortgage or encumbrance on any properties or assets in excess of $25 million in the aggregate at any given time;

(vii) the incurrence or assumption of any Indebtedness that provides for lender(s) to have recourse to the Members;

(viii) the issuance, sale, repurchase, or redemption of any equity interest, any other securities or rights convertible into, exchangeable or exercisable for, or evidencing the right to subscribe for, or any warrants or options to acquire, any such shares, interests, voting securities or convertible securities of the Company or any Subsidiary of the Company;

(ix) the making of any capital expenditures in excess of $25 million in the aggregate during any Fiscal Year;

(x) except as otherwise expressly provided herein, any amendment or modification to the terms of this Agreement or any material terms of any other governance document of the Company or any of its Subsidiaries or any material terms of any security issued by the Company or any of its Subsidiaries;

(xi) the entry by the Company or any Company Subsidiary into any Interested Transaction other than the transactions contemplated in the Purchase and Contribution Agreement and the Ancillary Agreements;

(xii) the entry into any "non-compete" or any other agreement or the taking of any action that would purport to limit or could reasonably be expected to limit, the freedom of the Company or any of its Subsidiaries or Affiliates that it controls to compete freely in any line of business or in any geographic area;

(xiii) the filing of a registration statement under the Securities Act of 1933, as amended;

(xiv) the entry into (and any amendment, alteration or cancellation of), any contract (other than contracts entered into, amended, altered or cancelled in the ordinary course of business), involving the commitment or transfer of value in excess of $1 million in the aggregate in any Fiscal Year;

(xv) (A) the commencement of a voluntary case, proceeding or other action (1) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to the Company or any of its Subsidiaries, or seeking to adjudicate the Company or any such Subsidiary bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to the Company or any such Subsidiary or the Company's or any such Subsidiary's debts, or (2) seeking appointment of a receiver, trustee, custodian or other similar official for the Company or any such Subsidiary or for all or any substantial part of the Company's or any such Subsidiary's assets, or (B) the making of a general assignment for the benefit of the Company's or any such Subsidiary's creditors;

(xvi) the commencement of any termination, plan of liquidation or dissolution or winding-up of the business and affairs of the Company or any of its Subsidiaries, or the selection of any Liquidating Trustee;

(xvii) any change to the name of the Company;

(xviii) the increase or decrease of the number of Directors constituting the entire Board; and

(xix) any material change in any accounting methods or practices, except as required by GAAP or as is necessary for conformity with any change in accounting methods or practices of Watsco that is required by GAAP.

(b) For the avoidance of doubt, the Company shall cause its Subsidiaries not to, at any time, take any action or effect any transaction, or enter any agreement to take any action or effect any transaction, to which the prior approval provisions of Section 6.3(a) apply, unless such action or transaction has been approved by the Requisite Members of the Company in accordance with the provisions of Section 6.3(a).

(c) No Member shall, and shall ensure that its Affiliates (other than the Company and its Subsidiaries) do not, at any time, take any action or effect any transaction, or enter any agreement to take any action or effect any transaction, binding, on behalf of, or in relation to, the Company or any of its Subsidiaries, which action or transaction, if undertaken by the Company or any of its Subsidiaries, would require the prior approval under Section 6.3(a) or Section 6.3(b) unless such action or transaction has been approved by the Requisite Members of the Company in accordance with the provisions of Section 6.3(a).

Section 6.4 Meetings of Members.

(a) Calling of Meetings; Notice. Meetings of the Members may be called at any time and for any purpose or purposes by Resolution of the Board in which at least a majority of all Directors call for such meeting, or by any Member. Subject to the notice provisions set forth in Section 15.2, notice of the place, date and hour of each meeting of the Members will be given by registered or certified mail, by nationally recognized overnight delivery service, by telephone (which shall be deemed given upon oral acknowledgment by the Member receiving notice), by facsimile or by personal delivery or by email, to each Member entitled to vote at such meeting, not fewer than five (5) Business Days prior to the meeting, and in any case not more than thirty (30) days prior to the meeting. A notice shall state, in general terms, the purpose or purposes for the calling of a meeting. If such notice is mailed, emailed or sent by overnight delivery service, it will be directed to each Member at such Member's address as it appears on the record of Members, or, if a Member had filed with the Company a written request that notices to such Member be sent to some other address, then directed to such Member at such other address. Notice of a meeting need not be given to any Member who signs a waiver of notice or a consent to holding the meeting or an approval of the minutes of such meeting, whether before or after the meeting, or who participates in the meeting without protesting, prior to the commencement of such Member's participation in the meeting, the lack of notice to such Member. All such waivers, consents and approvals shall be filed with the Company records or made a part of the minutes of the meeting.

(b) Time and Place of Meetings. Meetings of the Members may be held at any place within or without the State of Delaware which has been designated in the notice of the meeting or at such place as may be Determined by the Board from time to time.

(c) Quorum. Except as otherwise provided by this Agreement, at all meetings, all Members will be required for and will constitute a quorum for the transaction of business. The Members present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the loss of a quorum.

(d) Adjourned Meetings. Member(s) holding at least a majority Percentage Interest calculated with reference to all Members present, whether or not a quorum is present, may adjourn any meeting to another time and place. At any such adjourned meeting at which a quorum will be present, any business may be transacted that might have been transacted at the meeting as originally called. If the meeting is adjourned for more than twenty-four (24) hours, notice of such adjournment shall be given prior to the time the adjourned meeting is resumed to all Members who were not present at the time of the adjournment.

(e) Telephonic Participation by Members at Meetings. Members may participate in a meeting through the use of conference telephone or similar communications equipment, so long as all Members participating in such meeting can hear one another. Participation in a meeting in such manner constitutes presence in person at such meeting.

(f) Approval of Members.

(i) At a Meeting. Unless specifically provided otherwise in this Agreement, whenever the Members are entitled to vote on any matter under the Act or this Agreement, such matter shall be considered approved or consented to upon the receipt of the affirmative vote at a meeting at which a quorum is present, of the Member(s) holding at least a majority Percentage Interest calculated with reference to all Members entitled to vote thereon at such meeting; provided that any Major Decision shall be considered approved or consented to only as provided by Section 6.3(a).

(ii) By Written Consent. Unless specifically provided otherwise in this Agreement, any action required or permitted to be taken by the Members may be taken by the Members without a meeting, if a consent in writing, setting forth the action so taken, is signed by all Members.

Section 6.5 Proxies.

Each Member holding Membership Interests entitled to vote at a meeting of Members or to express consent or dissent without a meeting may authorize another Person or Persons to act for such Member by proxy. Without limiting the manner in which a Member may authorize another Person to act for such Member as proxy, a writing which has been executed by such Member and entered into the books and records of the Company, shall be a valid means by which a Member may grant such authority. Each proxy is revocable at the pleasure of the Member executing it, except in those cases where a proxy is made irrevocable and an irrevocable proxy is permitted by the Act.

Section 6.6 No Liability.

(a) No Member shall be liable, responsible or accountable in damages or otherwise to the Company or to any other Member for (i) any act performed within the scope of the authority conferred on the Members by this Agreement except for the willful misconduct of such Member in carrying out the obligations of such Member hereunder, (ii) such Member's failure or refusal to perform any act, except those expressly required by or pursuant to the terms of this Agreement, or (iii) such Member's performance of, or failure to perform, any act on the reasonable reliance on advice of legal counsel.

(b) The debts, obligations, expenses and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations, expenses and liabilities of the Company, and no Member or Director shall be obligated personally for any such debt, obligation, expense or liability of the Company solely by reason of being a Member or Director. No Member shall be required by this Agreement to loan the Company any funds or otherwise provide any financial or credit support.

Section 6.7 Nature of Obligations between Members.

Except as otherwise expressly provided herein, nothing contained in this Agreement shall be deemed to constitute any Member an agent or legal representative of any other Member or to create any fiduciary relationship for any purpose whatsoever, apart from such obligations between the members of a limited liability company as may be created by the Act. Except as otherwise expressly provided in this Agreement, a Member shall not have any authority to act for, or to assume any obligation or responsibility on behalf of, any other Member or the Company.

Section 6.8 Withdrawal of Members.

Except as otherwise specifically set forth herein, no Member shall be entitled to retire or withdraw from being a Member of the Company without the consent of the Requisite Members. No withdrawal of a Member shall cause the dissolution of the Company. If any withdrawal would as a matter of law cause dissolution of the Company, then any remaining Member shall be permitted to take appropriate action prior to such

withdrawal to prevent such dissolution, including, without limitation, Transfer of a portion of such remaining Member's Membership Interest to a third party and admission of such Transferee as a Member of the Company. Any purported withdrawal which is not in accordance with this Agreement shall be null and void. Notwithstanding the foregoing, any Member that Transfers all of its, and owns no, Membership Interests shall immediately cease to be a Member.

Section 6.9 Non-Solicitation.

(a) Each Member will not and from and after the date hereof will cause its Affiliates (other than the Company and Company Subsidiaries) not to, without the prior written approval of the Requisite Members, directly or indirectly, hire or solicit, encourage, entice or induce to terminate his or her employment with the Company or any Company Subsidiary any person who is an employee of the Company or any Company Subsidiary at the date hereof or at any time hereafter.

(b) Notwithstanding anything to the contrary in this Agreement, in the event, and from the date, that a party is no longer a Member hereunder, the provisions of this Section 6.9 shall survive for a period of three (3) years.

ARTICLE 7
MEMBERSHIP INTERESTS

Section 7.1 Membership Interests.

A Member's interest in the Company shall be represented by Membership Interests held by such Member. Except as otherwise expressly provided in this Agreement, all Membership Interests shall have identical rights in all respects as all other Membership Interests and shall for all purposes be personal property.

Section 7.2 Membership Interests are Securities.

All Membership Interests in the Company shall be deemed to be securities governed by Article 8 of the Uniform Commercial Code as in effect in the State of Delaware and in any other applicable jurisdiction, as provided in Section 8-103 thereof, for all purposes, including without limitation the perfection of security interests therein under Article 8 of each applicable Uniform Commercial Code.

Section 7.3 Certificates.

Each Certificate and each instrument issued in exchange for or upon the Transfer of any Membership Interests shall be stamped or otherwise imprinted with a legend in substantially the following form, or such similar legend as may be specified in any other agreement with the Company:

THE MEMBERSHIP INTERESTS REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN TRANSFER AND OTHER RESTRICTIONS SET FORTH IN THE OPERATING AGREEMENT OF CARRIER ENTERPRISE NORTHEAST, LLC (AS AMENDED FROM TIME TO TIME) AMONG CARRIER ENTERPRISE NORTHEAST, LLC AND CERTAIN OF ITS MEMBERS AND, AMONG OTHER THINGS, MAY NOT BE OFFERED OR SOLD EXCEPT IN COMPLIANCE WITH SUCH TRANSFER RESTRICTIONS. COPIES OF THE AFORESAID AGREEMENT ARE ON FILE WITH THE SECRETARY OF THE COMPANY AND ARE AVAILABLE WITHOUT CHARGE UPON WRITTEN REQUEST THEREFOR. THE HOLDER OF THIS CERTIFICATE, BY ACCEPTANCE OF THIS CERTIFICATE, AGREES TO BE BOUND BY ALL OF THE PROVISIONS OF THE AFORESAID AGREEMENT.

THE MEMBERSHIP INTERESTS REPRESENTED BY THIS CERTIFICATE SHALL CONSTITUTE A "SECURITY" WITHIN THE MEANING OF (I) SECTION 8-102(A)(15) OF THE UNIFORM COMMERCIAL CODE AS IN EFFECT FROM TIME TO TIME IN THE STATE OF DELAWARE AND (II) THE UNIFORM COMMERCIAL CODE OF ANY OTHER APPLICABLE JURISDICTION (AND SHALL BE TREATED AS SUCH A "SECURITY" GOVERNED BY ARTICLE 8 OF THE UNIFORM COMMERCIAL CODE AS PROVIDED IN SECTION 8-103(C) THEREOF FOR ALL PURPOSES, INCLUDING WITHOUT LIMITATION PERFECTION OF A SECURITY INTEREST THEREIN UNDER ARTICLE 8 OF EACH APPLICABLE UNIFORM COMMERCIAL CODE).

If a Certificate is lost or destroyed, the Secretary shall cancel the Certificate so lost or destroyed upon receiving a sworn declaration of the Member recorded in the Company's books as the holder of the Certificate, as to such loss or destruction, and reissue a replacement Certificate to the Member.

ARTICLE 8
ALLOCATION OF PROFITS AND LOSSES

Section 8.1 Determination of Profits and Losses.

Profits and Losses of the Company shall be allocated among the Members in the manner provided herein.

Section 8.2 Allocations.

After giving effect to the special allocations set forth in Section 8.4, Profits and Losses for any Fiscal Year shall be allocated among the Members pro rata in accordance with their Percentage Interests.

Section 8.3 Tax Allocations.

(a) Except as otherwise provided in this Agreement, for Federal income tax purposes, all items of Company income, gain, loss, deduction, and credit, and the character and source of such items, shall be allocated among the Members in the same manner as the corresponding items of income, gain, loss, deduction or credit are allocated to Capital Accounts in accordance with Section 8.2 or Section 8.4. The Company shall maintain such books, records and accounts as are necessary to make such allocations.

(b) The Company shall make, for tax purposes only, allocations of income, gain, loss or deduction or adopt conventions as are necessary or appropriate to comply with the relevant Treasury Regulations or Internal Revenue Service pronouncements under Section 704(c) of the Code, and in particular, in respect of a Capital Contribution of property other than cash and adjustments to the Book Value of Company Assets at the times specified in the definition of Book Value. Allocations will be made in a manner consistent with Treasury Regulations Section 1.704-3 and in conformity with Treasury Regulations Section 1.704-l(b)(2)(iv)(f) and 1.704-l(b)(4)(i), provided that, notwithstanding any other provision, the traditional method described in Treasury Regulations Section 1.704-3(b) (without curative or remedial allocations) shall be used to comply with Code Section 704(c) and the Treasury Regulations thereunder in respect of the assets contributed or deemed to be contributed in the Initial Capital Contribution by Carrier, the 1% Holder, and Holdings III, including, without limitation, the Northeast Business Contributed Assets and the Homans Business Contributed Assets.

Section 8.4 Special Allocations.

(a) Certain Regulatory Allocations. Notwithstanding anything to the contrary set forth in this Agreement, the allocations set forth in clauses (i), (ii), (iii), (iv), (v), (vi) and (vii) below shall be made to the extent applicable in the order set forth below.

(i) Except as otherwise provided in Treasury Regulations Section 1.704-2(f), if there is a net decrease in Company Minimum Gain during any Fiscal Year, each Member shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to such Member's share of the net decrease in Company Minimum Gain, determined in accordance with Treasury Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so

allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(f)(6) and 1.704-2(j)(2). This Section 8.4(a)(i) is intended to comply with the minimum gain chargeback requirements set forth in Treasury Regulations Section 1.704-2(f) and shall be interpreted consistently therewith;

(ii) Except as otherwise provided in Treasury Regulations Section 1.704-2(i)(4), if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Fiscal Year, each Member who has a share of the Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulations Section 1.704-2(i)(5), shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) in an amount equal to the portion of such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Treasury Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Treasury Regulations Sections 1.704-2(i)(4) and 1.704-2(j)(2). This Section 8.4(a)(ii) is intended to comply with Treasury Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith;

(iii) In the event any Member unexpectedly receives any adjustments, allocations or distributions described in subparagraphs (4), (5) or (6) of Treasury Regulations Section 1.704-1(b)(2)(ii)(d), such Member shall be allocated items of Company income or gain in an amount and manner sufficient to eliminate the deficit balance in such Member's Capital Account as quickly as possible to the extent required by the Treasury Regulations; provided, that an allocation pursuant to this Section 8.4(a)(iii) shall be made only if and to the extent that such Member would have a deficit balance in its Capital Account after tentatively making all other allocations provided in this ARTICLE 8 as if this Section 8.4(a)(iii) were not in this Agreement;

(iv) To the extent an adjustment to the adjusted tax basis of any Company Asset pursuant to Sections 734(b) or 743(b) of the Code is required pursuant to an election under Section 754 of the Code to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete liquidation of its interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Members in accordance with their Percentage Interests in the event Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Member to whom such distribution was made in the event Treasury Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies;

(v) Nonrecourse deductions within the meaning of Regulations Section 1.704-2(b)(1) shall be allocated to the Members pro rata in accordance with their Percentage Interests;

(vi) Partner nonrecourse deductions within the meaning of Regulations Section 1.704-2(i) shall be allocated to the Member who bears the economic risk of loss with respect to the particular partner nonrecourse liabilities to which they relate in accordance with said Regulations; and

(vii) Notwithstanding the foregoing, allocations of Losses or items of expense or deductions to a Member shall not exceed the maximum amount that can be allocated to the Member pursuant to the limit set forth in Regulations Section 1.704-1(b)(2)(ii)(d). Allocations of said items in excess of said limit shall made to the other Members pro rata, in accordance with the amounts not in excess of such amount for such other Members.

(b) Unwind of Special Allocations. Allocations provided for above in this Section 8.4 ("Regulatory Allocations") are intended to cause allocations of Company items to be respected under Treasury Regulations, but may not be consistent with the manner in which the Members intend to allocate Profit and Loss or make Company distributions. Accordingly, subject to the Regulatory Allocations, the Company is directed to reallocate items of income, gain, deduction, loss or credit among the Members so as to offset and eliminate the effect of the Regulatory Allocations as quickly as possible consistently with Treasury Regulations, and cause the respective Capital Account balances of the Members to be in the amounts (or as close thereto as possible) they would have been if Profit and Loss and items thereof had been allocated without regard to the Regulatory Allocations.

(c) Priority. The allocations under this Section 8.4 shall be made prior to the allocations under Section 8.2.

Section 8.5 Section 754 Election.

The parties agree that, at the request of the Transferee of a Membership Interest following an acquisition of such Membership Interest (but not the acquisition by the 1% Holder of Membership Interests prior to the date hereof and not the Transfer of a Membership Interest by any of the Carrier Holders pursuant to Section 12.1(b) hereof if such Transfer occurs in a tax year such that the election would also apply to Holdings III with respect to the Interest Purchase, the Company shall make (including, if requested by Holdings III, for the tax year of the Company that includes the date of the Interest Purchase, if applicable) the election referred to in Code § 754 and any like provision of any state income tax law or any similar provision or provisions enacted in lieu thereof and the Company shall not apply to the Internal Revenue Service to revoke any such election unless it has received the consent of all the Members.

Section 8.6 Changes in Membership Interests.

If the Membership Interests of any one or more Members changes during a Fiscal Year, all Company items of income, gain, loss, deduction and credit shall be allocated among the Members for such Fiscal Year in a reasonable manner, as Determined by the Board, that takes into account the varying Membership Interests of the Members in the Company during such taxable year in accordance with Code § 706; provided, however, that the taxable income of the Company for the Pre-Closing Tax Period (as defined in the Purchase and Contribution Agreement) shall be allocated based on a closing of the books as described in Section 11.01(c) of the Purchase and Contribution Agreement.

Section 8.7 Application of Code and Regulations.

For purposes of applying the Code and Regulations to the Company and the Members, references in the Code and Regulations to partnerships and partners shall be interpreted as applying to the Company and Members, respectively.

Section 8.8 Rules of Construction.

An allocation to a Member of Profits or Losses shall be treated as an allocation to such Member of each item of income, gain, loss and deduction that has been taken into account in computing such Profits or Losses.

ARTICLE 9
DISTRIBUTIONS

Section 9.1 Distributions.

(a) Subject to and in accordance with this ARTICLE 9, the Company shall make distributions out of Distributable Cash to the Members from time to time, when and in the amounts as determined by the Board.

(b) All Distributable Cash or other property if distributed by the Company shall be distributed to the Members in proportion to their respective Percentage Interests.

(c) The Company may offset damages for a judicially and finally determined breach of this Agreement by a Member whose interest is liquidated (either upon the withdrawal of the Member or the liquidation of the Company) against the amount otherwise distributable to the Member.

(d) Notwithstanding anything in the Act to the contrary, no Member will have the right to receive distributions in the form of anything other than cash, except pursuant to ARTICLE 10.

(e) Distributions made upon liquidation of the Company shall be made as provided in Section 10.4 and Section 10.5.

Section 9.2 Limitations on Distributions.

Notwithstanding any provision to the contrary contained in this Agreement, the Company shall not make a distribution to any Member on account of its interest in the Company if such distribution would violate the Act or other applicable law or any agreement in relation to the incurrence or assumption of Indebtedness by the Company.

Section 9.3 Tax Distributions.

The distributions made by the Company to any Member for each Fiscal Year shall be in an amount at least equal to the product of (x) the Tax Rate and (y) the amount of taxable income (as determined for federal income tax purposes) allocated to the Member in respect of such Fiscal Year pursuant to Section 8.2, Section 8.3 and Section 8.4, and, in the case of Holdings III (or any Affiliate of Holdings III), taking into account any adjustments to tax basis under Section 743 of the Code that may increase or decrease Holdings III's (or such Affiliate's) tax liability for such Fiscal Year ("Tax Distributions"). If the distributions made by Company to a Member prior to the application of this Section 9.3 for any given Fiscal Year (the "Initial Distribution") would be in an amount less than the Tax Distributions for such Member, then, notwithstanding any other provision, the Company shall make a distribution (the " Additional Distribution") to the Members (in addition to the distributions made prior to the application of this Section 9.3), in proportion to their respective Percentage Interests, in an amount that results in each Member receiving an Additional Distribution such that each has received at least an amount equal to the excess of the Tax Distribution over the Initial Distribution.

ARTICLE 10
DISSOLUTION, LIQUIDATION & TERMINATION

Section 10.1 No Dissolution.

The Company shall not be dissolved by the admission of additional Members in accordance with the terms of this Agreement.

Section 10.2 Events Causing Dissolution.

The Company shall be dissolved and its affairs shall be wound up upon the occurrence of any of the following events:

(a) a determination by the Requisite Members to dissolve, wind up and liquidate the Company; or

(b) the entry of a decree of judicial dissolution under the Act.

Section 10.3 Notice of Dissolution.

Upon the dissolution of the Company, the Person or Persons Approved by the Board (subject to Section 6.3) to carry out the winding up of the Company (which can include any one or more of the Directors or Members) (the " Liquidating Trustee") shall promptly notify the Members of such dissolution.

Section 10.4 Liquidation.

Upon dissolution of the Company, the Liquidating Trustee shall immediately commence to wind up the Company's affairs; provided, however, that a reasonable time shall be allowed for the orderly liquidation of the assets of the Company and the satisfaction of liabilities to creditors so as to enable the Members to minimize the normal losses attendant upon a liquidation. The Members shall continue to share Profits and Losses during liquidation in the same proportions, as specified in ARTICLE 8 hereof, as before liquidation. Each Member shall be furnished with a statement prepared by the Company's independent certified public accountants that shall set forth the assets and liabilities of the Company as of the date of dissolution. Each Member shall pay to the Company all amounts then owing by such Person to the Company. The proceeds of liquidation shall be distributed, as realized, in the following order and priority:

(a) First, to the payment of the expenses of liquidation;

(b) Second, to the setting up of any reserves which the Liquidating Trustee reasonably determines to be necessary or desirable for any contingent or unforeseen liabilities, expenses or other obligations of the Company;

(c) Third, to the payment of the debts and liabilities of the Company, other than debts and liabilities to any Member or Affiliate of a Member;

(d) Fourth, to the payment of the debts and liabilities of the Company owed to any Members or Affiliate of a Member or to any other beneficial holder of any interest in the Company; and

(e) Then, pro rata to the Members in accordance with their relative Capital Accounts.

To the extent that the Board Determines that any or all of the assets of the Company shall be sold, the Liquidating Trustee shall arrange for the sale of such assets to be sold as promptly as possible, provided that such sale is conducted in a business-like and commercially reasonable manner.

Section 10.5 Liquidating Distributions.

(a) Upon the liquidation of the Company, any liquidating distributions will be made in accordance with Section 10.4. Liquidation proceeds will be paid within sixty (60) days of the end of the taxable year (or, if later, within one hundred and twenty (120) days after the date of the liquidation).

(b) For purposes of making the liquidating distributions required by Section 10.4, the Liquidating Trustee shall distribute all or any portion of the assets of the Company in kind or to sell all or any portion of the assets of the Company and distribute the proceeds therefrom. If any property or assets of the Company are to be distributed in kind to the Members, (i) the Capital Accounts of the Members shall be adjusted to reflect the amount, if any, of unrealized gain or loss with respect to such property, as though such property had been sold for its fair market value (determined in good faith by the Liquidating Trustee) and any gain or loss allocated among the Members in accordance with the provisions of this Agreement and (ii) such property will be distributed in such a manner that each Member will receive such Member's proportionate interest in each of the assets available for such distribution; that is to say, each Member shall receive an undivided interest, corresponding to the proportion to which such Member is entitled pursuant to Section 10.4, in all interests in real estate and leaseholds and other indivisible properties, as nearly as practicable, of each divisible asset.

Section 10.6 Termination.

The Company shall terminate when all of the Company Assets, after payment of or due provision established for all debts, liabilities, expenses and other obligations of the Company, shall have been distributed to the Members in the manner provided for in this ARTICLE 10, and the Certificate of Formation shall have been canceled in the manner required by the Act.

Section 10.7 Claims of the Members.

The Members shall look solely to the Company's assets for the return of their Capital Contributions and Capital Account balances, and if the assets of the Company remaining after payment of or due provision for all debts, liabilities and obligations of the Company are insufficient to return such Capital Contributions or Capital Account balances, the Members shall have no recourse against the Company, the Board, any individual Director or other Member or any other Person. No Member with a negative balance in such Member's Capital Account shall have any obligation to the Company or to the other Members or to any creditor or other Person to restore such negative balance upon dissolution or termination of the Company or otherwise.

ARTICLE 11
BOOKS AND RECORDS; FINANCIAL AND TAX MATTERS

Section 11.1 Books and Records.

(a) At all times during the Term, the Company shall maintain, at its principal place of business, separate books of account for the Company that shall show a true and accurate record of all costs and expenses incurred, all charges made, all credits made and received and all income derived in connection with the operation of the Company business in accordance with United States generally accepted accounting principles (" GAAP") consistently applied, and, to the extent inconsistent therewith, in accordance with this Agreement. Notwithstanding any provision to the contrary of the Act, such books of account, together with a certified copy of this Agreement and of the Certificate of Formation, shall at all times be maintained at the principal place of business of the Company. In addition to any other rights specifically set forth in this Agreement, each Member shall have access to all information to which a Member is entitled to have access pursuant to the Act. The books of account and the records of the Company shall be audited by and reported upon as of the end of each Fiscal Year by a firm of independent certified public accountants of recognized national standing that shall be selected by the Board. The Company shall maintain its books of account and its records in accordance with applicable laws and regulation, including, without limitation, the Sarbanes-Oxley Act of 2002.

(b) A Member may, at its own expense, use its internal resources, or appoint an accounting firm on behalf of such Member, to audit the accounts of the Company and its Subsidiaries and to perform internal controls assessments of the Company and its Subsidiaries. The Company shall provide reasonable cooperation and complete access to the books and records, including, without limitation, original expense reports, invoices, contracts, and other original records and documents, to such auditor provided, that, if the auditor is a third party, such auditor executes an appropriate confidentiality agreement and undertakes to keep such records confidential and withhold from unaffiliated third parties the information disclosed during the course of this audit, except as is otherwise required by applicable law. Such audits and assessments may be conducted at any time with or without prior notice

Section 11.2 Financial Information.

(a) The Company shall:

(i) Furnish (A) to each Member, as soon as practicable after the end of each Fiscal Year, but in any event not less than sixty (60) days after the end of the relevant Fiscal Year, either (1) audited combined financial statements for the Company and its Subsidiaries and Carrier Enterprise and its Subsidiaries for such year, including supplemental consolidating schedules of balance sheet, statement of operations and cash flows; or (2) stand-alone audited consolidated financial statements

for the Company and its Subsidiaries for such year, including, without limitation, in either such case as appropriate under GAAP, a final audited combined or consolidated balance sheet as of the end of such Fiscal Year, a final audited combined or consolidated statement of operations, and a final audited combined or consolidated statement of cash flows of the Company and its Subsidiaries (and Carrier Enterprise and its Subsidiaries, if applicable) for such year, setting forth in each case in comparative form the figures from the Company's, or if combined, the Company's and Carrier Enterprise's, previous Fiscal Year (if any), all prepared in accordance with GAAP and accompanied by an opinion, unqualified as to scope or compliance with GAAP, of the Company's independent certified public accountants; and (B) upon request of a Member, furnish to such Member an annual report summarizing the Company's finances, operations and performance for the Fiscal Year in question and its Business Plan for the following year;

(ii) Furnish to each Member, as soon as practicable after the end of each Fiscal Quarter of the Company, but in any event not less than thirty (30) days after the end of the relevant Fiscal Quarter, final unaudited combined or consolidated financial statements for such quarterly period, including, without limitation, a final unaudited combined or consolidated statement of operations and a final unaudited combined or consolidated statement of cash flows of the Company and its Subsidiaries (and Carrier Enterprise and its Subsidiaries, if applicable) for such quarterly period and for the period from the beginning of the Fiscal Year to the end of such Fiscal Quarter, and a final unaudited combined or consolidated balance sheet of the Company and its Subsidiaries (and Carrier Enterprise and its Subsidiaries, if applicable) as of the end of such quarterly period; and all such statements shall have been prepared in accordance with GAAP, subject to the absence of footnote disclosures and to normal year-end adjustments for recurring accruals and shall have been reviewed by the Company's independent certified public accountants;

(iii) Furnish to all Members as soon as practicable following the end of each month, but in any event not more than seven (7) Business Days thereafter, monthly unaudited financial statements, including an unaudited balance sheet and an unaudited statement of operations and financial performance data by region and brand;

(iv) Furnish to all Members within ten (10) Business Days after generation thereof, copies of any internal valuation study or analyses regarding a material portion of the Company's and its Subsidiaries' business taken as a whole;

(v) For so long as Carrier or any Affiliate of Carrier is a Member, not transmit to the public any press releases or other written statements concerning material developments in the Company's and its Subsidiaries' businesses without the prior written consent (not to be unreasonably withheld or delayed) of the Carrier Deciding Member; and

(vi) Submit, on a confidential basis, to Members complete and accurate schedules and reports in and on such forms and at such times as Members may reasonably request; and permit Members, on a confidential basis, to inspect the Company's books and records.

(b) In addition, for so long as Carrier or any Affiliate of Carrier is a Member, neither Holdings III, nor any Watsco Holder nor any of their respective Affiliates shall transmit to the public any press releases or other written statements concerning material developments in the Company's and its Subsidiaries' businesses without the prior written consent (not to be unreasonably withheld or delayed) of the Carrier Deciding Member.

Section 11.3 Reporting Requirements.

The Directors shall use reasonable best efforts to cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code and all other tax returns deemed necessary and required by each jurisdiction in which the Company does business, provided however that the Directors shall only cause the preparation and filing of tax returns for taxable periods that end after the Closing Date of the Purchase and Contribution Agreement, as defined in such agreement, and provided further that if such tax return is with respect to a Straddle Period, as defined in the Purchase and Contribution Agreement, this Section 11.3 shall be subject to Section 11.01(f)(ii) of the Purchase and Contribution Agreement. No later than ninety (90) days prior to the due date for filing such tax returns, taking into account extensions, the Company shall provide each Member with a proposed federal Form 1065 setting forth such Member's allocable share of the Company's income, gain, loss, deductions and credits and other items required to be set forth thereon (the "Proposed 1065"). No later than thirty (30) days following the receipt of the Proposed 1065, the Members shall endeavor to agree on the content of the Proposed 1065. If the Members fail to agree on the content of the Proposed 1065 before the date that is sixty (60) days following the receipt of the Proposed 1065, the content of the Form 1065 shall be determined by a firm of independent certified public accountants of recognized national standing mutually selected by the Members. The Form 1065 as agreed upon by the Members or determined by a firm of accountants under this Section 11.3 (the "Final 1065") shall be final and binding upon the Members. Each of the Members shall bear all fees and costs incurred by it in connection with the determination of the content of the Form 1065, except that the Members shall each pay fifty percent (50%) of the fees and expenses of such accounting firm. The Company shall furnish or cause to be furnished to each Member (and, otherwise, to each Person to whom it is required to be furnished), by no later than ninety (90) days following the end of each taxable year of the Company, a Schedule K-1 of federal Form 1065 (and any corresponding schedules, documents, forms, etc. required to be furnished to such Member or Person) setting forth such Member's, or Person's allocable share of the Company's income, gain, loss, deductions and credits and other items required to be set forth thereon in respect of such taxable year and conforming with the Final 1065. The Company shall also furnish such other tax-related information to any Member as such Member may reasonably request or require.

Section 11.4 Tax Matters.

(a) The Board shall designate the "Tax Matters Member" within the meaning of Code § 6231(a)(7). The Board shall initially designate Holdings III as the Tax Matters Member, and if Holdings III subsequently ceases to be a Member pursuant to a Transfer of all of its Membership Interests to one or more Permitted Transferees of Holdings III under Section 12.1(b), the Board shall designate the Permitted Transferee (or one of the Permitted Transferees) as the Tax Matters Member. All decisions for the Company relating to tax matters including, without limitation, whether to make any tax elections, the positions to be taken on the Company's tax returns and the settlement or further contest or litigation of any audit matters raised by the Internal Revenue Service or any other taxing authority, shall be taken by the Tax Matters Member acting with Approval of the Board.

(b) Except to the extent otherwise required by applicable law (disregarding for this purpose any requirement that can be avoided through the filing of an election or similar administrative procedure), the Tax Matters Member shall cause the Company to take the position that the Company is a partnership for federal, state and local income tax purposes and shall cause to be filed with the appropriate tax authorities any elections or other documents necessary to give due legal effect to such position.

(c) Neither the Company nor any Member shall file (and each Member hereby represents that it has not filed) any income tax election or other document that is inconsistent with the classification of the Company as a partnership for applicable federal, state and local income tax purposes. Neither the Company nor any Member shall take any action inconsistent with such classification.

(d) No Member shall file a notice with the United States Internal Revenue Service under Code § 6222(b) in connection with such Member's intention to treat an item on such Member's Federal income tax return in a manner which is inconsistent with the treatment of such item on the Company's federal income tax return unless such Member has, not less than thirty (30) days prior to the filing of such notice, provided the Tax Matters Member with a copy of the notice and thereafter in a timely manner provides such other information related thereto as the Tax Matters Member shall reasonably request.

ARTICLE 12
TRANSFER OF MEMBERSHIP INTERESTS

Section 12.1 Transfer of Membership Interests.

(a) Restriction on Transfer. Other than pursuant to Section 12.1(b) or Section 12.1(f), or a Transfer of Membership Interests approved by the Requisite Members, prior to July 1, 2019, no Transfer or offer to Transfer may be made by a Member of all or any part of such Member's Membership Interests in the Company. Transfer of all of a Member's Membership Interests shall terminate the Transferor's status as a Member, and the Members are hereby authorized to continue the business of the Company without dissolution.

(b) Intra-group Transfers. Subject to Section 8.02(l) of the Purchase and Contribution Agreement, each Member shall have, and at all times retain the right to Transfer, all or any portion of such Member's Membership Interests, and the rights granted under this Agreement relating to such Member, to such Member's wholly-owning ultimate parent entity or to any direct or indirect wholly-owned Subsidiary of such Member's wholly-owning ultimate parent entity (each, a "Permitted Transferee"); provided, that if any Permitted Transferee ceases to be such a wholly-owned Subsidiary, it shall no longer be a Permitted Transferee hereunder and all of its Membership Interests, if any, shall be deemed to have been Transferred back to such Member for all purposes hereunder.

(c) Effectiveness. A Transfer of Membership Interests in the Company shall be effective only upon satisfaction of the following conditions:

(i) The Membership Interests so transferred were acquired by means of a Transfer permitted under this ARTICLE 12; and

(ii) The Transferee furnishes copies of all instruments effecting the Transfer and such other customary certificates, instruments and documents as the Company may reasonably require as necessary and appropriate to memorialize and confirm the Transfer.

(d) Substitute Members. Any Person who is a Transferee of any portion of a Member's Membership Interests pursuant to this ARTICLE 12 (other than Section 12.1(f) hereof) shall become a substitute Member.

(e) Distribution entitlement. For purposes of receiving distributions, a Transfer of Membership Interests made in accordance with this ARTICLE 12 shall be effective on the first day of the month following the day on which the requirements of this ARTICLE 12 have been satisfied, or at such earlier time as the Board reasonably Determines. Distributions made after the effective date shall be made to the Transferee.

(f) Pledges of Membership Interests.

(i) Notwithstanding any other provision in this Agreement, including, without limitation, the other provisions of this ARTICLE 12, a Member shall be entitled to grant a Permitted Lien over its Membership Interests in favor of, any lender or lenders (or agent on behalf of such lender or lenders) pursuant to a bona fide financing transaction.

(ii) No consent of the Company or any Member shall be required under this Agreement to the Transfer to the lienee under a Permitted Lien of a Member's Membership Interest that is subject to the Permitted Lien upon the exercise of such lienee's rights under the Permitted Lien. Upon the exercise of such lienee's foreclosure rights in respect of such Permitted Lien, the lienee shall have the rights, powers and entitlements of an assignee as set out in Section 18-702(b)(1) and (2) of the Act.

(iii) As of the date hereof, Holdings III has pledged its Membership Interests to, and granted a security interest in all of their right, title and interest under this Agreement in favor of, the agent for the lenders under the Revolving Credit Agreement.

(g) Transfers in Violation. No Transfer of Membership Interests, or any part thereof, that is in violation of this ARTICLE 12, shall be valid or effective against, or shall bind, the Company, and neither the Company nor the Members shall recognize the same for the purpose of making allocations, distributions or other payments pursuant to this Agreement with respect to such Membership Interests or part thereof. Neither the Company nor the non-transferring Members shall incur any liability as a result of refusing to make any such distributions to the Transferee of any such invalid Transfer, or any other Person, and no such purported Transferee shall have any right to receive allocations or payments of any Profits or Losses or distributions. In addition, notwithstanding any other provision of this Agreement to the contrary, (i) any Transfer, as a whole or in part, of Membership Interests shall be prohibited if, in the reasonable opinion of the Board such Transfer poses a material risk that the Company would be treated as a "publicly traded partnership" within the meaning of Code § 7704 and the Treasury Regulations promulgated thereunder; and (ii) a Member may not Transfer all or any part of such Person's Membership Interests in the Company if such Transfer would jeopardize the status of the Company as a partnership for federal income tax purposes or would violate any provision of Federal or state securities or blue sky laws or breach the conditions to any exemption from registration of the Membership Interests under any such laws or breach any undertaking or agreement of a Member entered into pursuant to such laws or in connection with obtaining an exemption thereunder.

Section 12.2 Rights of First Refusal.

(a) Right of First Refusal. In the event that, after July 1, 2019, any Carrier Holder (" Carrier Offeror") or any Watsco Holder ("Watsco Offeror" and, together with Carrier Offeror, "Offeror") desires to Transfer any or all of its Membership Interests in a transaction (other than a Transfer permitted by Section 12.1(a)), the Offeror shall deliver to the Company, in any case, and the Watsco Deciding Member, in the case of a Carrier Offeror, or the Company and the Carrier Deciding Member, in the case of a Watsco Offeror (the Watsco Deciding Member or the Carrier Deciding Member, as applicable, together with the Company, the "Offerees"), a written notice of the proposed transaction (hereinafter referred to as a " First Refusal Notice") to Transfer the Membership Interests which shall set forth the name and address of the proposed purchaser and the material terms and conditions of the proposed transactions, including, without limitation, the purchase price and the number of Membership Interests proposed to be transferred. The First Refusal Notice shall be accompanied by a written offer (hereinafter referred to as the "Offer"), irrevocable for ten (10) Business Days from its receipt by the Offerees to sell to the Offerees all but not less than all of the Membership Interests covered by the First Refusal Notice, for a price determined in accordance with Section 12.2(c), and on the same terms and conditions as are contained in the First Refusal Notice. The Offer shall further state that (i) the Company, subject to Section 6.3, may acquire, in accordance with the provisions of this Agreement, any of the Membership Interests subject to the Offer for the price and upon the other terms and conditions set forth therein, and (ii) if all such Membership Interests are not purchased by the Company, the other Offeree may purchase all but not less than all of the Membership Interests subject to the Offer not purchased by the Company for the price and upon the other terms and conditions set forth in the Offer. An Offeree may accept the Offer by delivering a written notice (an " Offeree Notice") to the Offeror and the other Offeree within such ten (10) Business Days. If an Offeree fails to timely deliver an Offeree Notice to the Offeror, it shall be deemed to have waived any right to participate in the Offer. If the Offeree (other than the Company), and/or the Company, as applicable, accepts the Offer, such Offeree, and/or the Company, as applicable, shall purchase and pay for all of such Membership Interests in accordance with the terms of the Offer. Notwithstanding the foregoing, the Offer may not be accepted by any of the Offerees unless, following such acceptances, all of the Membership Interests covered by the First Refusal Notice are accepted by the Offerees.

(b) Right of First Refusal Procedure. If the Offer is not accepted by the Offerees, or payment for all of the Membership Interests offered by an Offeror is not made in accordance with Section 12.2(c) and Section 12.2(d), the Offeror may sell the Membership Interests that were the subject of the First Refusal Notice to the third party purchaser on terms and conditions which are no less favorable to the Offeror in the aggregate than the terms and conditions set forth in the First Refusal Notice, during the ninety (90) day period immediately following expiration of the Offer pursuant to a binding agreement entered into during such ninety (90) day period which contains an

agreement to be bound by the terms of this Agreement. If the Membership Interests are not purchased pursuant to an Offer or by the third party purchaser, such Membership Interests may not be sold or otherwise disposed of without again offering them to the Offerees in accordance with this Agreement.

(c) Purchase Price. The purchase price to the Offerees for Membership Interests offered pursuant to an Offer shall be, on a per Membership Interest basis, an amount equal to one hundred percent (100%) of the cash per Membership Interest purchase price and one hundred percent (100%) of the fair market value of any non-cash per Membership Interest consideration identified in the First Refusal Notice with the fair market value of such non-cash consideration as determined within twenty (20) days after the last date on which the Offer must be accepted by a mutually agreed nationally recognized investment banking firm or other valuation expert. If the Offeror and Offerees are unable to agree upon an investment banking firm or other valuation expert within two (2) days after the last date on which the Offer must be accepted, either the Offeror or the Offerees may request the American Arbitration Association to appoint a nationally recognized investment banking firm or other valuation expert to perform the services required under this Section 12.2(c).

(d) Terms of Payment. Subject to Section 12.2(c), if the Offerees have the right to purchase Membership Interests pursuant to the terms of this Section 12.2, the Offerees will purchase such Membership Interests on the same terms as is specified in the First Refusal Notice.

(e) Closing. The closing of the purchase of Membership Interests subscribed pursuant to this Section 12.2 shall be determined by written notice by the Offerees purchasing Membership Interests to the Offeror, which shall specify a closing date, which date shall not be later than thirty (30) days after the last date on which the Offer must be accepted. At such closing, the Offeror shall deliver documentation reasonably satisfactory to the Offerees, effecting Transfer of such Membership Interests. The Offerees shall deliver at the closing payment of the purchase price determined pursuant to Section 12.2(c).

(f) No Waiver of Subsequent Rights. The exercise or non-exercise of the rights of an Offeree under this Section 12.2 shall not affect its rights under this Section 12.2 with respect to any future Transfers of Membership Interests that meet the conditions specified in this Section 12.2.

Section 12.3 Tag-Along Rights.

Subject to the terms of the other Sections of this ARTICLE 12, including, without limitation, Section 12.2, unless Watsco Holders have, in the aggregate, Transferred (excluding for these purposes Transfers pursuant to Section 12.1(b), but giving effect to proposed Transfers which are the subject of this Section 12.3) Membership Interests representing a Percentage Interest of not more than five percent

(5%) during the three-year period preceding the applicable date of determination, in the event any Watsco Holder (the " Tag Seller") proposes to Transfer (any such Transfer, a "Tag Sale") any Membership Interests held by the Tag Seller to a third party (which, for purposes hereof, shall not include any Permitted Transferee of the Tag Seller) in a single transaction or in a series of related transactions, then the Watsco Deciding Member shall provide written notice to the Carrier Deciding Member (the "Tag Notice"). The Tag Notice shall specify the identity of the prospective purchaser and the terms and conditions of such proposed Transfer, including, without limitation, the number of Membership Interests proposed to be transferred and the amount and type of consideration to be paid in respect thereof. Subject to the terms and conditions of this Section 12.3, the Carrier Deciding Member shall have the right to participate in such Tag Sale for the same consideration and on the same terms and conditions set forth in the Tag Notice and to Transfer a number of its Membership Interests equal to the number of Membership Interests proposed to be sold by the Tag Seller multiplied by a fraction, the numerator of which is the Percentage Interest of the Carrier Holders, in the aggregate, and the denominator of which is the aggregate Percentage Interest of the Carrier Holders and the Watsco Holders, and the number of Membership Interests to be sold by the Tag Seller pursuant to the Tag Sale shall be reduced accordingly. This right of co-sale shall be on the following terms and conditions:

(a) Option to Participate. The Carrier Deciding Member may elect to participate in the contemplated Tag Sale by delivering a written notice (an "Election Notice") to the Watsco Deciding Member within twenty (20) Business Days after receipt of a Tag Notice relating to such sale and the Carrier Deciding Member may elect to sell in the contemplated Tag Sale up to that number of Membership Interests owned by the Carrier Holders as is set forth in this Section 12.3 above. If the Carrier Deciding Member fails to deliver in a timely manner an Election Notice to the Watsco Deciding Member, it shall be deemed to have waived any right to participate in the Tag Sale. To the extent that the Carrier Deciding Member exercises such right of participation in accordance with the terms and conditions hereof, the number of Membership Interests which the Tag Seller may sell shall be correspondingly. Promptly following expiration of the offering period for the Tag Notice, the Watsco Deciding Member will notify the Carrier Deciding Member whether the Membership Interests offered by the Tag Seller in the Tag Notice will be purchased and shall confirm the final terms of the Tag Sale to the third party purchaser.

(b) Transfer Restrictions Binding on Third Party Purchaser. If any Membership Interests are sold pursuant to this Section 12.3 to any third party purchaser who is not a party to this Agreement, such purchaser shall agree to be bound by the terms, conditions and obligations of this Agreement in the same manner as the Transferor of such Membership Interests as a precondition to the purchase of such Membership Interests and such Membership Interests shall continue to be subject to the provisions set forth in this Agreement.

(c) No Waiver of Subsequent Rights. The exercise or non-exercise of the rights of the Carrier Deciding Member under this Section 12.3 shall not affect its rights to participate in subsequent sales by Watsco Holders that meet the conditions specified in this Section 12.3.

ARTICLE 13
ISSUANCE OF ADDITIONAL INTERESTS; ADMISSION OF NEW MEMBERS

Section 13.1 Issuance of Additional Membership Interests .

(a) In order to raise additional capital or to acquire assets or for any other Company purposes, subject to Section 3.1, if the Board Determines to raise additional capital, the Board is authorized to cause the Company to issue additional Membership Interests at any time or from time to time to any Person, provided it first obtains the approval of the Requisite Members as provided in Section 6.3(a). Purchasers of Membership Interests directly from the Company shall be admitted to the Company as new Members at such time as all conditions to their admission have been satisfied, as Determined in good faith by the Board.

(b) Subject to the approval of the Requisite Members, the Board shall have the right to amend, or cause the officers to amend, any provision of this Agreement and to execute, swear to, acknowledge, deliver, file, publish and record such documents as necessary and appropriate in connection therewith in order to reflect the authorization and issuance of each such class or series of Membership Interests. The Board, and the officers as authorized by the Board, is hereby authorized to do all things it deems to be appropriate or necessary to effectuate issuance of Membership Interests as provided in this Section 13.1, including, without limitation, compliance with the Act and any other statute, rule, regulation or guideline of any federal, state or other governmental agency.

ARTICLE 14
INDEMNIFICATION

Section 14.1 Liability for Certain Acts .

Subject to applicable law, no Members and officers, employees or agents appointed pursuant to this Agreement (each in their capacity as such an "Exculpated Person") shall be liable, in damages or otherwise, to the Company, the Members or their Affiliates, or any other Exculpated Person for any act or omission performed or omitted by them in good faith (including, without limitation, any act or omission performed or omitted by any of them in reliance upon and in accordance with the opinion or advice of experts, including, without limitation, of legal counsel as to matters of law, of accountants as to matters of accounting, or of investment bankers or appraisers as to matters of valuation). A Director's liability for breach of fiduciary duty to the Company, any other Member, any other Person that is a party to this Agreement and any Person otherwise bound by this Agreement is hereby eliminated to the full extent permitted by the Act.

Section 14.2 Indemnification.

(a) The Company shall indemnify to the fullest extent permitted by law any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Company), or any appeal thereof by reason of the fact that such Person is or was a Member, Director, an officer, employee or agent of the Board or the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another Person (any such Person in their capacity as such, a "Covered Person"), against any losses or damages, (including, without limitation, reasonable attorneys' fees and any amount expended in settlement of any claim or loss or damage), actually incurred by such Person in connection with investigating, preparing or defending any such action, suit or proceeding except that no Covered Person shall be entitled to be indemnified in respect of such losses and damages incurred by such Covered Person (i) by reason of willful misconduct, fraud or bad faith, (ii) resulting from any breach of this Agreement, or (iii) where, with respect to any criminal action or proceeding, such Covered Person had reasonable cause to believe such Person's conduct was unlawful.

(b) The Company shall indemnify to the fullest extent permitted by law any Covered Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by or in the right of the Company to procure a judgment in its favor by reason of the fact that such Covered Person is or was a Director, an officer, employee or agent of the Board or the Company, or is or was serving at the request of the Company as a director, officer, employee or agent of another Person against any losses or damages, (including, without limitation, reasonable attorneys' fees and any amount expended in settlement of any claim or loss or damage), actually incurred by such Covered Person in connection with investigating, preparing or defending any such action, suit or proceeding except that no Covered Person shall be entitled to be indemnified in respect of such losses and damages incurred if such Covered Person did acted bad faith or fraudulently; provided that no indemnification shall be made in respect of any claim, issue or matter as to which such Covered Person shall have been determined upon final adjudication after all possible appeals have been exhausted to be liable to the Company unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such Covered Person is fairly and reasonably entitled to indemnity for such expenses which a court shall deem proper.

(c) Expenses (including, without limitation attorneys' fees) reasonably incurred by any Covered Person in defending any civil, criminal, administrative or

investigative action, suit or proceeding shall be paid by the Company in advance of the final disposition of such action, suit or proceeding promptly upon receipt of an undertaking by or on behalf of such or officer to repay such amount if it shall be determined upon final adjudication after all possible appeals have been exhausted that such Person is not entitled to be indemnified by the Company authorized in this Section 14.2. In addition, any expenses (including, without limitation, attorneys' fees) reasonably incurred by any Covered Person in enforcing their right to indemnification pursuant to this Section 14.2 shall be paid or reimbursed by the Company promptly upon receipt by it of an undertaking by such Covered Person to repay such expenses if it shall ultimately be determined that such Covered Person is not entitled to indemnification by the Company.

(d) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 14.2 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any law, agreement, or otherwise, both as to action in an official capacity and as to action in another capacity while holding such office.

(e) The Company may purchase and maintain insurance on behalf of any Covered Person against any liability asserted against such Covered Person and incurred by such Covered Person in any such capacity, or arising out of such Covered Person's status as such, whether or not the Company would have the power to indemnify such Person against such liability under this Section 14.2.

(f) The indemnification and advancement of expenses provided by, or granted pursuant to, this Section 14.2 shall, unless otherwise provided when authorized or ratified, continue as to a Covered Person who has ceased to be a Member, Director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a Person.

(g) The termination of any civil, criminal, administrative or investigative action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the Covered Person was not entitled to indemnification pursuant to this Section 14.2.

(h) Notwithstanding anything to the contrary in this Agreement, the provisions of this Section 14.2 shall survive the termination of this Agreement or dissolution of the Company.

(i) Nothing in this Section 14.2 is intended to relieve any Member or any other Person from any liability or other obligation of such Person pursuant to the Purchase and Contribution Agreement or any Ancillary Agreement, or to in any way impair the enforceability of any provision of such agreements against any party thereto.

(j) Any indemnity under this Section 14.2 shall be provided solely out of, and only to the extent of, the Company's assets, and no Member shall be required

directly to indemnify any Covered Person pursuant to this Section 14.2. None of the provisions of this ARTICLE 14 shall be deemed to create any rights in favor of any person other than Covered Persons and Exculpated Persons.

ARTICLE 15
MISCELLANEOUS

Section 15.1 Further Assurances.

Each Member agrees to execute, acknowledge, deliver, file, record and publish such further certificates, amendments to certificates, instruments and documents as may be reasonably requested by the Company, and do all such other acts and things as may be required by law, or as may be required to carry out the intent and purposes of this Agreement.

Section 15.2 Notices.

Any notice to be given hereunder shall be in writing and delivered personally or mailed by registered or certified mail, postage prepaid and return receipt requested, or by telecopier, as follows:

IF TO WATSCO OR THE WATSCO DECIDING MEMBER:	Watsco, Inc. 2665 South Bayshore Drive Suite 901 Coconut Grove, FL 33133 Attn: Barry S. Logan, Senior Vice President Telecopy No. (305) 858-4492 With a copy to: Moore & Van Allen 100 North Tyron Street Suite 4700 Charlotte, NC 28202-4003 Attn: Stephen D. Hope, Esq. Telecopy No. (704) 378-2036
IF TO CARRIER OR THE CARRIER DECIDING MEMBER:	Carrier Corporation One Carrier Place Farmington, CT 06034-4015 Attn: Donald K. Cawley, Esq., General Counsel Telecopy No. (860) 674-3246
IF TO ANY OTHER MEMBER	To such addresses reflected in the books and records of the Company.

Any Member may designate another addressee (and/or change its address) for notices hereunder by a notice given pursuant to this Section 15.2. Notice given by personal delivery or registered mail shall be effective upon actual receipt. Notice given by telecopier shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next normal business day after receipt if not received during the recipient's normal business hours. All notices by telecopier shall be confirmed by the sender thereof promptly after transmission in writing by registered mail or personal delivery. Anything to the contrary contained herein notwithstanding, notices to any party shall not be deemed effective with respect to such party until such notice would, but for this sentence, be effective both as to such party and as to all other Persons to whom copies are to be given as provided above.

Section 15.3 Dispute Resolution.

(a) Initial Dispute Resolution Procedures. Any dispute, claim or controversy (a "Dispute") arising out of or relating to this Agreement, including, without limitation, any such Dispute between the Company, Carrier Holders and Watsco Holders, shall be subject to the following dispute resolution procedure: first, such Dispute shall be addressed to the President of the Company and the President of the Carrier North America operating division (or equivalent level manager) for discussion and attempted resolution; second, if any such Dispute cannot be resolved by such individuals within twenty (20) business days from the date that the Dispute is submitted to such persons, then such Dispute shall be immediately referred to the appropriate, respective senior officer of each Member (provided, however, that in the case of Holdings III, such person shall be a senior officer of Watsco) (or equivalent level person) for discussion and attempted resolution; third, if any such Dispute cannot be resolved by such officers within twenty (20) business days from the date that the Dispute is submitted to such persons, then such Dispute shall be immediately referred to the appropriate, respective Chief Executive Officers of each Member (provided, however, that in the case of Holdings III, such person shall be the Chief Executive Officer of Watsco) (or equivalent level person) for discussion and attempted resolution; and fourth, if any such Dispute cannot be resolved by such Chief Executive Officers within twenty (20) business days from the date that the Dispute is submitted to such persons, then such Dispute shall be immediately referred to non-binding mediation as provided in Section 15.3(b) below.

(b) Mediation. Following the initial dispute resolution procedures set forth in Section 15.3(a), the parties agree to submit any Dispute to mediation before a neutral mediator in Wilmington, Delaware who will be requested to conduct informal, nonbinding mediation of the Dispute. Each party will work with the other to select an

acceptable mediator and to work with the mediator to resolve the Dispute. The mediation process shall continue until the case is resolved or until either the mediator makes a finding that there is no possibility of settlement through the mediation or one of the parties elects not to continue the mediation (" Mediation Termination").

(c) Litigation. In the event of a Mediation Termination, then such Dispute shall be resolved through legal action or proceeding in state or federal courts located in the State of Delaware. Each party hereto irrevocably submits to the jurisdiction of the state and federal courts located in the State of Delaware, in any action or proceeding arising out of or relating to this Agreement, and each party hereby irrevocably agrees that all claims in respect of any such action or proceeding must be brought and/or defended in such court; provided, however, that matters which are under the exclusive jurisdiction of the Federal courts shall be brought in the Federal District Court for the District of Delaware and any court of appeal therefrom; and each party hereby waives any obligation or requirement to post any bond on appeal. Each party agrees that service of process on such party as provided in Section 15.2 shall be deemed effective service of process on such party. Service made pursuant to the foregoing sentence shall have the same legal force and effect as if served upon such party personally within the State of Delaware, and each party irrevocably waives, to the fullest extent each may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court. **EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT IT MAY LEGALLY AND EFFECTIVELY DO SO, TRIAL BY JURY IN ANY SUIT, ACTION OR PROCEEDING ARISING HEREUNDER.**

(d) Governing Law. The provisions of this Agreement shall be governed by and construed in accordance with the laws of the State of Delaware (excluding any conflict of law rule or principle that would refer to the laws of another jurisdiction).

Section 15.4 Headings.

All titles or captions contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 15.5 No Third Party Beneficiaries.

This Agreement shall be binding upon and inure solely to the benefit of the parties hereto and their permitted assigns, and nothing herein, express or implied, is intended to or shall confer upon any other Person any legal or equitable rights benefit or remedy of any nature whatsoever.

Section 15.6 Extension Not a Waiver.

No delay or omission in the exercise of any power, remedy or right herein provided or otherwise available to a party or the Company shall impair or affect the right of such party or the Company thereafter to exercise the same. Any extension of time or other indulgence granted to a party hereunder shall not otherwise alter or affect any power, remedy or right of any other party or of the Company, or the obligations of the party to whom such extension or indulgence is granted. The single or partial exercise of any power, remedy or right herein provided or otherwise available to a party or the Company shall not preclude any other or further exercise of any power, remedy, or right.

Section 15.7 Severability.

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 15.8 Assignment.

Neither this Agreement nor any rights hereunder may be assigned by operation of law or otherwise without the express written Consent of all the Members, except as permitted pursuant to ARTICLE 12.

Section 15.9 Entire Agreement.

This Agreement (including the Schedules hereto) constitutes the entire agreement of the parties hereto with respect to the subject matter hereof and all prior oral or written agreements relative hereto which are not contained herein are terminated.

Section 15.10 Amendment.

(a) Except as contemplated by ARTICLE 13 and as otherwise provided in this Section 15.10, this Agreement may be amended only by the written approval of all of the Members.

(b) This Agreement may be amended from time to time by the Board to amend any of the schedules to this Agreement to provide any necessary information regarding any Member.

(c) Amendments, variations, modifications or changes herein may be made effective and binding upon the parties by, and only by, the setting forth of same in a document duly executed in accordance with the foregoing, and any alleged amendment, variation, modification or change herein which is not so documented shall not be effective as to any party.

Section 15.11 Counterparts.

This Agreement may be executed in one or more counterparts (including by facsimile transmission), and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which when taken together shall constitute one and the same agreement.

Section 15.12 Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the Members and their respective successors and permitted assigns.

Section 15.13 Advice and Construction.

Each Member has been advised, or has had the opportunity to be advised, by respective counsel as to its respective rights and obligations under this Agreement and clearly understands and agrees with all terms and conditions of this Agreement as set forth herein; and the principle of construction against draftsmen shall have no application in the interpretation of this Agreement.

Section 15.14 Specific Performance.

The parties hereto agree that irreparable damage would occur if any of the provisions of this Agreement were not performed in accordance with its specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in addition to any other remedy to which they are entitled at law or in equity.

Section 15.15 General Statutory Override.

To the extent permitted by law, the provisions of this Agreement shall govern over all provisions of the Act which would apply but for (and inconsistently with) the Agreement. For each question (a) with respect to which the Act provides a rule (a " Default Rule") but permits a limited liability company's operating agreement to provide a different rule and (b) which is addressed by this Agreement, the Default Rule shall not apply to the Company.

[REMAINDER OF PAGE LEFT INTENTIONALLY BLANK; SIGNATURE PAGES FOLLOW]

THE COMPANY:

CARRIER ENTERPRISE NORTHEAST, LLC

By: /s/ Barry S. Logan
Name: Barry S. Logan
Title: Vice President

MEMBERS:

WATSCO HOLDINGS III, LLC

By: /s/ Barry S. Logan
Name: Barry S. Logan
Title: President

CARRIER CORPORATION

By: /s/ Brian E. Kelleher
Name: Brian E. Kelleher
Title: Vice President, Legal Affairs, Business Development

CARLYLE SCROLL HOLDINGS, INC.

By: /s/ Brian E. Kelleher
Name: Brian E. Kelleher
Title: Authorized Signatory

EXHIBIT 13

WATSCO, INC. AND SUBSIDIARIES
SELECTED CONSOLIDATED FINANCIAL DATA

Years Ended December 31, (In thousands, except per share data)	2011	2010	2009 *(1)*	2008	2007 *(2)(3)*
OPERATING DATA					
Revenues	$2,977,759	$2,844,595	$2,001,815	$1,700,237	$1,758,022
Gross profit	728,294	673,241	480,832	441,994	446,985
Operating income	199,050	165,572	81,060	98,608	111,154
Net income from continuing operations	137,742	111,722	51,573	60,369	67,489
Loss from discontinued operations, net of income taxes	—	—	—	—	(1,912)
Net income	137,742	111,722	51,573	60,369	65,577
Less: net income attributable to noncontrolling interest	47,292	30,962	8,259	—	—
Net income attributable to Watsco, Inc.	$ 90,450	$ 80,760	$ 43,314	$ 60,369	$ 65,577
SHARE AND PER SHARE DATA					
Diluted earnings per share for Common and Class B common stock:					
Net income from continuing operations attributable to Watsco, Inc. shareholders	$ 2.74	$ 2.49	$ 1.40	$ 2.09	$ 2.34
Net loss from discontinued operations attributable to Watsco, Inc. shareholders	—	—	—	—	(0.07)
Net income attributable to Watsco, Inc. shareholders	$ 2.74	$ 2.49	$ 1.40	$ 2.09	$ 2.27
Cash dividends declared and paid per share:					
Common stock	$ 2.23	$ 2.04	$ 1.89	$ 1.75	$ 1.31
Class B common stock	$ 2.23	$ 2.04	$ 1.89	$ 1.75	$ 1.31
Weighted-average Common and Class B common shares and equivalent shares used to calculate diluted earnings per share	30,753	30,579	28,521	27,022	27,139
Common stock outstanding	33,005	32,449	32,139	28,326	27,969
BALANCE SHEET DATA					
Total assets	$ 1,268,148	$ 1,237,227	$1,160,613	$ 716,061	$ 750,113
Total long-term obligations	—	$ 10,016	$ 13,429	$ 20,783	$ 55,042
Total shareholders' equity	$ 1,001,710	$ 928,896	$ 894,808	$ 570,660	$ 549,957

(1) *Effective January 1, 2009, we adopted the provisions of accounting guidance stating that non-vested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities and should be included in the computation of earnings per share pursuant to the two-class method for all periods presented. We also adopted the provisions of revised accounting guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination.*

(2) *On July 19, 2007, we divested of our non-core staffing unit. All amounts related to this operation are restated as discontinued operations.*

(3) *Effective January 1, 2007, we adopted the provisions of accounting guidance related to uncertainty in income taxes.*

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

Information about Forward-Looking Statements

This Annual Report contains or incorporates by reference statements that are not historical in nature and that are intended to be, and are hereby identified as, "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995, including statements regarding, among other items, (i) economic conditions, (ii) business and acquisition strategies, (iii) potential acquisitions and/or joint ventures, (iv) financing plans and (v) industry, demographic and other trends affecting our financial condition or results of operations. These forward-looking statements are based largely on management's current expectations and are subject to a number of risks, uncertainties and changes in circumstances, certain of which are beyond their control.

Actual results could differ materially from these forward-looking statements as a result of several factors, including, but not limited to:

- general economic conditions;
- competitive factors within the HVAC/R industry;
- effects of supplier concentration;
- fluctuations in certain commodity costs;
- consumer spending;
- consumer debt levels;
- new housing starts and completions;
- capital spending in the commercial construction market;
- access to liquidity needed for operations;
- seasonal nature of product sales;
- weather conditions;
- insurance coverage risks;
- federal, state and local regulations impacting our industry and products;
- prevailing interest rates;
- refinancing of revolving credit agreements with satisfactory terms;
- foreign currency exchange rate fluctuations; and
- the continued viability of our business strategy.

In light of these uncertainties, there can be no assurance that the forward-looking information contained herein will be realized or, even if realized, in whole or in part, that the information will have the expected consequences to, or effects on, our business or operations. For additional information identifying other important factors that may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, see our SEC filings, including but not limited to, the discussion included in the Risk Factors section of this Annual Report on Form 10-K under the headings "Business Risk Factors" and "General Risk Factors." Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information or the discussion of such risks and uncertainties to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as required by applicable law.

The following information should be read in conjunction with the information contained in Item 1A, "Risk Factors" and the consolidated financial statements, including the notes thereto, included under Item 8, "Financial Statements and Supplementary Data" of this Annual Report.

Company Overview

Watsco, Inc. and its subsidiaries (collectively, "Watsco," or *we, us* or *our*) was incorporated in 1956 and is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry. At December 31, 2011, we operated from 542 locations in 38 states, Mexico and Puerto Rico with additional market coverage on an export basis to Latin America and the Caribbean.

Revenues primarily consist of sales of air conditioning, heating and refrigeration equipment and related parts and supplies. Selling, general and administrative expenses primarily consist of selling expenses, the largest components of which are salaries, commissions and marketing expenses that are variable and correlate to changes in sales. Other significant selling, general and administrative expenses relate to the operation of warehouse facilities, including a fleet of trucks and forklifts and facility rent, which are payable mostly under non-cancelable operating leases.

Sales of residential central air conditioners, heating equipment and parts and supplies are seasonal. Furthermore, results of operations can be impacted favorably or unfavorably based on weather patterns during summer and winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets is fairly consistent during the year, except for dependence on housing completions and related weather and economic conditions.

Joint Ventures with Carrier Corporation

In 2009, we formed a joint venture with Carrier Corporation ("Carrier"), which we refer to as "Carrier Enterprise I", in which Carrier contributed 95 of its company-owned locations in 13 U.S. Sun Belt states and Puerto Rico and its export division in Miami, Florida and we contributed 15 locations that distributed Carrier products. We have a 60% controlling interest in Carrier Enterprise I, Carrier has a 40% noncontrolling interest and we have options to purchase from Carrier up to an additional 20% interest in Carrier Enterprise I (10% in July 2012 and 10% in July 2014).

In 2011, we formed a second joint venture with Carrier and completed two additional transactions. In April 2011, Carrier contributed 28 of its company-owned locations in eight Northeast U.S states and we contributed 14 locations in the Northeast U.S. In August 2011, we purchased Carrier's distribution operations in Mexico, which included seven locations (we refer to the foregoing Northeast locations and the Mexico operations together as "Carrier Enterprise II"). We have a 60% controlling interest in Carrier Enterprise II and Carrier has a 40% noncontrolling interest. Neither we nor Carrier have any options to purchase additional ownership interests in Carrier Enterprise II.

Critical Accounting Policies

Management's discussion and analysis of financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting period. Actual results may differ from these estimates under different assumptions or conditions. At least quarterly, management reevaluates its judgments and estimates, which are based on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances.

Our significant accounting policies are discussed in Note 1 to the consolidated financial statements. Management believes that the following accounting policies include a higher degree of judgment and/or complexity and, thus, are considered to be critical accounting policies. Management has discussed the development and selection of critical accounting policies with the Audit Committee of the Board of Directors and the Audit Committee has reviewed the disclosures relating to them.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. Accounting for doubtful accounts contains uncertainty because management must use judgment to assess the collectability of these accounts. When preparing these estimates, management considers a number of factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends and other information. Our business is seasonal and our customers' businesses are also seasonal. Sales are lowest during the first and fourth quarters and past due accounts receivable balances as a percentage of total trade receivables generally increase during these quarters. We review our accounts receivable reserve policy periodically, reflecting current risks, trends and changes in industry conditions.

The allowance for doubtful accounts was $12.9 million and $6.3 million at December 31, 2011 and 2010, respectively, an increase of $6.6 million. Accounts receivable balances greater than 90 days past due as a percent of accounts receivable at December 31, 2011 increased to 4.7% compared to 2.2% at December 31, 2010. These increases are primarily attributable to the 35 locations added by Carrier Enterprise II in 2011.

Although we believe the allowance for doubtful accounts is sufficient, a decline in economic conditions could lead to the deterioration in the financial condition of customers, resulting in an impairment of their ability to make payments and additional allowances may be required that could materially impact our consolidated results of operations. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising our customer base and their dispersion across many different geographical regions. Additionally, we mitigate credit risk through a credit insurance program.

Inventory Valuation

Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are valued at the lower of cost or market using a weighted-average cost basis and the first-in, first-out method. As part of the valuation process, inventory reserves are established to state excess, slow-moving and damaged inventories at their estimated net realizable value. The valuation process for excess, slow-moving and damaged inventory contains uncertainty because management must use judgment to estimate when the inventory will be sold and the quantities and prices at which the inventory will be sold in the normal course of business. Inventory reserve policies are periodically reviewed, reflecting current risks, trends and changes in industry conditions. A reserve for estimated inventory shrinkage is also maintained and reflects the results of cycle count programs and physical inventories. When preparing these estimates, management considers historical results, inventory levels and current operating trends.

Valuation of Goodwill and Indefinite Lived Intangible Assets

The recoverability of goodwill is evaluated at least annually and when events or changes in circumstances indicate that the carrying amount may not be recoverable. We have one reporting unit that is subject to goodwill impairment testing. In performing the goodwill impairment test, we use a two-step approach. The first step compares the reporting unit's fair value to its carrying value. If the carrying value exceeds the fair value, a second step is performed to measure the amount of impairment loss, if any. The identification and measurement of goodwill impairment involves the estimation of the fair value of our reporting unit and contains uncertainty because management must use judgment in determining appropriate assumptions to be used in the measurement of fair value. On January 1, 2012, we performed our annual goodwill impairment test and determined that the estimated fair value of our reporting unit significantly exceeded its carrying value.

The recoverability of indefinite lived intangibles is also evaluated on an annual basis or more often if deemed necessary. Indefinite lived intangibles not subject to amortization are assessed for impairment by comparing the fair value of the intangible asset to its carrying amount to determine if a write-down to fair value is required. Our annual impairment tests did not result in any impairment of our indefinite lived intangibles.

The estimates of fair value of our reporting unit and indefinite lived intangibles are based on the best information available as of the date of the assessment and incorporates management's assumptions about expected future cash flows and contemplates other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment or market conditions. There have been no events or circumstances from the date of our assessments that would have an impact on this conclusion. The carrying amount of goodwill and intangibles at December 31, 2011 increased to $394.8 million from $360.3 million at December 31, 2010, which was primarily attributable to the formation of Carrier Enterprise II. Although no impairment has been recorded to date, there can be no assurances that future impairments will not occur. An adjustment to the carrying value of goodwill and intangibles could materially impact the consolidated results of operations.

Self-Insurance Reserves

Self-insurance reserves are maintained relative to company-wide casualty insurance and health benefit programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. Management reviews its assumptions with its independent third-party actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occur and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. Reserves in the amounts of $4.6 million and $7.3 million at December 31, 2011 and 2010, respectively, were established related to such insurance programs.

Income Taxes

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting basis and the tax basis of assets and liabilities at enacted tax rates expected to be in effect when such amounts are recovered or settled. The use of estimates by management is required to determine income tax expense, deferred tax assets and any related valuation allowance and deferred tax liabilities. A valuation allowance of $0.4 million and $1.1 million was recorded at December 31, 2011 and 2010, respectively, due to uncertainties related to the ability to utilize a portion of the deferred tax assets primarily arising from foreign net operating loss carryforwards. The valuation allowance is based on estimates of future taxable income by jurisdiction in which the deferred tax assets will be recoverable. These estimates can be affected by a number of factors, including possible tax audits or general economic conditions or competitive pressures that could affect future taxable income. Although management believes that the estimates are reasonable, the deferred tax asset and any related valuation allowance will need to be adjusted if management's estimates of future taxable income differ from actual taxable income. An adjustment to the deferred tax asset and any related valuation allowance could materially impact the consolidated results of operations.

Recent Accounting Pronouncements

Refer to Note 1 to our consolidated financial statements for a discussion of recently issued accounting standards.

Results of Operations

The following table summarizes information derived from the consolidated statements of income expressed as a percentage of revenues for the years ended December 31, 2011, 2010 and 2009:

	2011	2010	2009
Revenues	100.0%	100.0%	100.0%
Cost of sales	75.5	76.3	76.0
Gross profit	24.5	23.7	24.0
Selling, general and administrative expenses	17.8	17.9	20.0
Operating income	6.7	5.8	4.0
Interest expense, net	0.2	0.1	0.1
Income before income taxes	6.5	5.7	3.9
Income taxes	1.9	1.8	1.3
Net income	4.6	3.9	2.6
Less: net income attributable to noncontrolling interest	1.6	1.1	0.4
Net income attributable to Watsco, Inc.	3.0%	2.8%	2.2%

The following narratives include the results of operations for businesses acquired during 2011, 2010 and 2009. The results of operations for these acquisitions have been included in our consolidated statements of income beginning on their respective dates of acquisition. The pro forma effect of these acquisitions, excluding the Carrier Enterprise II joint venture, was not deemed significant on either an individual or an aggregate basis in the related acquisition year. See Note 8 to our consolidated financial statements for the pro forma financial information combining our results of operations with the operations of Carrier Enterprise II.

In the following narratives, computations and disclosure information referring to “same-store basis” exclude the effects of locations acquired or locations opened or closed during the immediately preceding 12 months unless they are within close geographic proximity to existing locations. At December 31, 2011 and 2010, 63 and 18 locations, respectively, were excluded from “same-store basis” information. The table below summarizes the changes in our locations for 2010 and 2011:

	Number of Locations
December 31, 2009	505
Acquired	2
Opened	7
Closed	(9)
December 31, 2010	505
Acquired	35
Opened	15
Closed	(13)
December 31, 2011	**542**

2011 Compared to 2010

Revenues

Revenues for 2011 increased $133.2 million, or 5%, to $2,977.8 million, including $191.7 million attributable to the 35 new Carrier Enterprise II locations acquired in 2011 and $7.3 million from other locations acquired and opened during the immediately preceding 12 months, partially offset by $28.1 million from closed locations. On a same-store basis, revenues decreased $37.7 million, or 1%, as compared to 2010, reflecting a 3% decrease in sales of HVAC equipment and a 1% decrease in sales of other HVAC products, partially offset by a 3% increase in sales of refrigeration products. The decrease in same-store revenues is primarily due to lower demand in the residential replacement market and a shift in sales mix to lower-efficiency air conditioning systems, which sell at lower unit prices, partially offset by higher demand in the commercial replacement market.

Gross Profit

Gross profit for 2011 increased $55.1 million, or 8%, to $728.3 million, primarily as a result of increased revenues. Gross profit margin improved 80 basis-points to 24.5% in 2011 from 23.7% in 2010. The improvement in gross profit margin was primarily due to increased selling prices and improved discounts and rebates from vendors, reflecting increased purchasing activity during 2011. On a same-store basis, gross profit margin improved 90 basis-points to 24.5% in 2011 from 23.6% in 2010.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2011 increased $21.6 million, or 4%, to $529.2 million. Selling, general and administrative expenses as a percent of revenues decreased to 17.8% for 2011 from 17.9% for 2010. Selling, general and administrative expenses in 2011 included $1.2 million of acquisition-related costs primarily associated with the acquisition and transition of Carrier Enterprise II. On a same-store basis, selling, general and administrative expenses decreased 2% compared to 2010 and as a percentage of sales were 17.8% primarily due to decreases in selling expenses related to our decreased revenues.

Operating Income

Operating income for 2011 increased $33.5 million, or 20%, to $199.1 million. Operating margin improved 90 basis-points to 6.7% in 2011 from 5.8% in 2010. On a same-store basis, operating income increased $23.2 million, or 14%, and operating margin also improved 90 basis-points to 6.7% versus 5.8% in 2010.

Interest Expense, Net

Net interest expense in 2011 increased $1.0 million, or 28%, to $4.5 million primarily as a result of an increase in average outstanding borrowings during 2011 as compared to 2010.

Income Taxes

Income taxes increased to $56.9 million for 2011 as compared to $50.4 million for 2010 and are a composite of the income taxes attributable to our wholly-owned operations and investments and 60% of income taxes attributable to the Carrier joint ventures, which are taxed as partnerships for income tax purposes. The effective income tax rate attributable to us was 38.0% in 2011 and 2010.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco in 2011 increased $9.7 million, or 12%, to $90.5 million. The increase was primarily driven by higher revenues, expanded profit margins and lower levels of selling, general and administrative expenses as a percent of revenues as discussed above.

2010 Compared to 2009

Revenues

Revenues for 2010 increased $842.8 million, or 42%, to $2,844.6 million, including $625.4 million attributable to the 95 new Carrier Enterprise I locations acquired July 1, 2009 and $23.9 million from other locations acquired and opened during the last twelve months partially offset by $15.2 million from closed locations. On a same-store basis, revenues increased $208.7 million, or 11%, as compared to 2009 and reflect a 16% increase in sales of HVAC equipment, a 2% increase in sales of other HVAC products and a 10% increase in sales of refrigeration products. Sales of HVAC equipment benefited from growth in unit sales and an improved sales mix of higher-efficiency replacement air conditioning and heating systems, which sell at higher unit prices.

Gross Profit

Gross profit for 2010 increased $192.4 million, or 40%, to $673.2 million, primarily as a result of increased revenues. Gross profit margin declined 30 basis-points to 23.7% in 2010 from 24.0% in 2009, reflecting the impact of lower selling margins for Carrier Enterprise I. On a same-store basis, gross profit margin improved 20 basis-points to 24.3% versus 24.1% in 2009 primarily due to a shift in sales mix toward higher-efficiency HVAC equipment as well as improved margins for non-equipment products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2010 increased $107.9 million, or 27%, to $507.7 million reflecting the impact of Carrier Enterprise I for twelve months in 2010 as compared to six months in 2009. Selling, general and administrative expenses as a percent of revenues decreased to 17.9% for 2010 from 20.0% for 2009. Selling, general and

administrative expenses in 2009 include $4.8 million of acquisition-related costs primarily associated with the closing and transition of Carrier Enterprise I. On a same-store basis, selling, general and administrative expenses increased 2% compared to 2009, primarily due to increases in selling expenses related to our increased revenues including higher incentive-based compensation partially offset by a decrease in the provision for doubtful accounts.

Operating Income

Operating income for 2010 increased $84.5 million, or 104%, to $165.6 million. Operating margin improved 180 basis-points to 5.8% in 2010 from 4.0% in 2009. On a same-store basis, operating income increased $46.8 million, or 57%, and operating margin also improved 170 basis-points to 5.8% versus 4.1% in 2009.

Interest Expense, Net

Net interest expense in 2010 increased $0.8 million, or 28%, to $3.5 million primarily as a result of the additional amortization of bank fees (included in interest expense, net) related to the amendment of our existing revolving credit agreement required to consummate the joint venture on July 1, 2009 and the establishment of the Carrier Enterprise I revolving credit agreement, together with a 25% increase in average outstanding borrowings during 2010 as compared to 2009.

Income Taxes

Income taxes increased to $50.4 million for 2010 as compared to $26.8 million for 2009 and are a composite of the income taxes attributable to our wholly-owned operations and investments and 60% of income taxes attributable to Carrier Enterprise I, which is taxed as a partnership for income tax purposes. The effective income tax rate attributable to us increased to 38.0% in 2010 from 37.8% in 2009. The increase is primarily due to certain non-recurring tax benefits and credits realized in 2009 and a higher effective state tax rate associated with Carrier Enterprise I in 2010.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco increased $37.5 million, or 86%, to $80.8 million. The increase was primarily driven by higher revenues and reduced selling, general and administrative expenses as a percent of revenues as discussed above.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to execute our business strategy and fund operating and investing activities, taking into consideration the seasonal demand of HVAC/R products, which peaks in the months of May through August. Significant factors that could affect our liquidity include the following:

- cash flows generated from operating activities;
- the adequacy of available bank lines of credit;
- the ability to attract long-term capital with satisfactory terms;
- acquisitions;
- dividend payments;
- capital expenditures; and
- the timing and extent of common stock repurchases.

Sources and Uses of Cash

We rely on cash flows from operations and additional borrowing capacity (subject to certain restrictions) under our revolving credit agreements to fund seasonal working capital needs, including our anticipated dividend payments, capital expenditures and funds necessary for business acquisitions, and to support the development of our long-term operating strategies.

We believe that our operating cash flows, cash on hand and funds available for borrowing under our current lines of credit will be sufficient to satisfy our liquidity needs in the foreseeable future, including exercising our option to acquire another 10% interest in Carrier Enterprise I on July 1, 2012. However, there can be no assurance that our current sources of available funds will be sufficient to meet our cash requirements. While we have the intent and current ability to refinance our revolving credit agreements on a long-term basis prior to their respective maturities in 2012, there is no assurance that we will be able to refinance with the same terms and conditions.

Any future disruption in the capital and credit markets, such as those experienced in 2008, could adversely affect our ability to draw on or refinance our lines of credit. Our access to funds under the lines of credit is dependent on the ability of the banks to meet their funding commitments. Disruptions in capital and credit markets also may affect the determination of interest rates for borrowers, particularly rates based on LIBOR, such as the rates in our lines of credit. Any future disruptions in these markets and their effect on interest rates could result in increased borrowing costs under our existing, and any future, lines of credit.

Working Capital

Working capital increased to $605.1 million at December 31, 2011 from $572.0 million at December 31, 2010, reflecting the 35 new locations added by Carrier Enterprise II in 2011, which in aggregate added $50.2 million of working capital. Excluding these new locations, working capital was $554.9 million at December 31, 2011.

Cash Flows

The following table summarizes our cash flow activity for 2011 and 2010:

	2011	2010	Change
Cash flows provided by operating activities	**$ 61.5**	$152.8	$(91.3)
Cash flows used in investing activities	**$ (56.6)**	$ (10.1)	$(46.5)
Cash flows used in financing activities	**$(115.6)**	$ (74.2)	$ (41.4)

A detail of the individual items contributing to the cash flow changes for the years presented is included in the consolidated statements of cash flows.

Operating Activities

The decrease in net cash provided by operating activities was primarily attributable to changes in operating assets and liabilities, which were primarily composed of lower levels of accounts payable and other liabilities due to approximately $70.0 million in incremental vendor payments from one-time changes in payment terms effective July 1, 2011 and higher levels of inventory, including the purchase of previously consigned inventory from one of our key suppliers in 2011 for approximately $17.0 million, partially offset by accounts receivable and higher net income in 2011.

Investing Activities

The increase in net cash used in investing activities is due to the purchase of our 60% controlling interest in Carrier Enterprise II for aggregate cash consideration of $43.5 million and an increase in capital expenditures partially offset by higher proceeds from the sale of property and equipment in 2010.

Financing Activities

In March 2011, Carrier Enterprise I used cash on hand to return to us and Carrier an $80.0 million aggregate capital contribution made in 2009. Our share of the return of capital totaled $48.0 million and Carrier's share totaled $32.0 million. Cash distributions attributable to the noncontrolling interest included $9.7 million that was payable at December 31, 2010. This payment was made in January 2011.

The increase in net cash used in financing activities was primarily attributable to the $32.0 million return of capital to the noncontrolling interest in Carrier Enterprise I, an increase in distributions to the noncontrolling interest and an increase in dividends paid, partially offset by net borrowings under our revolving credit agreements in 2011.

Revolving Credit Agreements

We maintain a bank-syndicated, unsecured revolving credit agreement that provides for borrowings of up to $300.0 million. Borrowings are used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends, stock repurchases and issuances of letters of credit. At December 31, 2011 and 2010, $20.0 million and $10.0 million were outstanding under this revolving credit agreement, respectively. The credit agreement matures in August 2012 and accordingly, borrowings outstanding are classified as current liabilities in our consolidated balance sheet at December 31, 2011. We have obtained indicative term sheets at competitive rates and terms and intend to refinance this bank-syndicated, unsecured revolving credit agreement prior to its maturity however, there is no assurance that we will be able to refinance with the same terms and conditions.

The revolving credit agreement contains customary affirmative and negative covenants including financial covenants with respect to consolidated leverage and interest coverage ratios, limits on capital expenditures, dividends and share repurchases, and other restrictions. We believe we were in compliance with all covenants and financial ratios at December 31, 2011.

Carrier Enterprise I maintains a separate bank-syndicated, secured revolving credit agreement that provides for borrowings of up to $125.0 million. Effective July 1, 2011, Carrier Enterprise I's standard payment terms with Carrier for inventory purchases changed. As a result of this change, on July 26, 2011 we amended the revolving credit agreement to increase

available borrowings to $125.0 million from $75.0 million. All other terms and conditions of the credit facility remained the same. Borrowings under the credit facility are used for general corporate purposes, including working capital and permitted acquisitions. The credit facility is secured by substantially all tangible and intangible assets of Carrier Enterprise I. No borrowings were outstanding under this credit facility at December 31, 2011 or 2010. The credit agreement matures in July 2012. We have obtained indicative term sheets at competitive rates and terms and intend to refinance, on an unsecured basis, this bank-syndicated revolving credit agreement prior to its maturity however, there is no assurance that we will be able to refinance with the same terms and conditions.

The Carrier Enterprise I revolving credit agreement contains customary affirmative and negative covenants and representations and warranties, including compliance with a monthly borrowing base certificate with advance rates on accounts receivable and inventory, two financial covenants with respect to its leverage and interest coverage ratios, limits on capital expenditures and cash distributions, and other restrictions. We believe Carrier Enterprise I was in compliance with all covenants and financial ratios at December 31, 2011.

Contractual Obligations and Off-Balance Sheet Arrangements

As of December 31, 2011, our significant contractual obligations were as follows (in millions):

	Payments due by Period						
Contractual Obligations	2012	2013	2014	2015	2016	Thereafter	Total
Operating leases (1)	$58.5	$48.2	$39.1	$31.1	$21.8	$ 17.8	$216.5

(1) *Represents future minimum payments associated with real property, equipment, vehicles and a corporate aircraft under non-cancelable operating leases. We are committed to pay a portion of the actual operating expenses under certain of these lease agreements and these operating expenses are not included in the table above.*

Commercial obligations outstanding at December 31, 2011 under our revolving credit agreements consist of borrowings totaling $20.0 million and standby letters of credit totaling $3.7 million. Borrowings under the revolving credit agreements at December 31, 2011 had revolving maturities of 30 days and letters of credit had varying terms expiring through January 2013. Standby letters of credit are primarily used as collateral under our self-insurance programs.

At December 31, 2011, we were contingently liable under performance bonds aggregating approximately $4.7 million that are used as collateral to cover any contingencies related to our nonperformance to certain customers. We do not expect any material losses or obligation to result from the issuances of the standby letters of credit or performance bonds because the obligations under our self-insurance programs and to certain customers will be met in the ordinary course of business. Accordingly, the estimated fair value of these instruments is zero at December 31, 2011. See Note 11 to our consolidated financial statements for further information.

Acquisitions

We intend to exercise our option to acquire another 10% interest in Carrier Enterprise I on July 1, 2012 for approximately $51.0 million. Any other potential acquisitions and/or joint ventures are continually evaluated and discussions are conducted with a number of acquisition candidates. Should suitable acquisition opportunities or working capital needs arise that would require additional financing, we believe our financial position and earnings history provide a sufficient basis for obtaining additional financing resources at competitive rates and terms or gives us the ability to raise funds through the issuance of equity securities.

Common Stock Dividends

Cash dividends of $2.23, $2.04 and $1.89 per share of Common stock and Class B common stock were paid in 2011, 2010 and 2009, respectively. On January 3, 2012, our Board of Directors declared a regular quarterly cash dividend of $0.62 per share of Common and Class B common stock that was paid on January 31, 2012 to shareholders of record as of January 13, 2012. Future dividends and/or dividend rate increases will be at the sole discretion of the Board of Directors and will depend upon such factors as cash flow generated by operations, profitability, financial condition, cash requirements, restrictions under our revolving credit agreements, future prospects and other factors deemed relevant by our Board of Directors.

Company Share Repurchase Program

In September 1999, our Board of Directors authorized the repurchase, at management's discretion, of up to 7,500,000 shares of common stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders' equity. No shares were repurchased in 2011, 2010 or 2009. In aggregate, 6,370,913 shares of Common and Class B common stock have been repurchased at a cost of $114.4 million since the inception of the program. The repurchase of up to the remaining 1,129,087 shares authorized for repurchase is subject to certain restrictions included in our revolving credit agreements.

Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposure is interest rate risk, and our objective is to manage our exposure to interest rate changes by reducing borrowing costs, which limits the impact of interest rate changes on earnings and cash flows. To achieve this objective, we use interest rate swaps to manage net exposure to interest rate changes on our borrowings. These swaps are entered into with financial institutions with investment grade credit ratings, thereby minimizing the risk of credit losses. All items described are non-trading. See Notes 1 and 11 to our consolidated financial statements for further information.

Interest rate swap agreements reduce the exposure to market risks from changing interest rates under our revolving credit agreements. Under the swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to a notional principal amount. Any differences paid or received on interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. Financial instruments are not held for trading purposes. Derivatives used for hedging purposes must be designated as, and effective as, a hedge of the identified risk exposure at the inception of the contract. Accordingly, changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract.

We were party to an interest rate swap agreement with a notional amount of $10.0 million that matured in October 2011 and was designated as a cash flow hedge. This swap effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. During 2011, 2010 and 2009, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $10.0 million that matured in October 2009 and was designated as a cash flow hedge. This swap effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.04%. During 2009, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

WATSCO, INC. AND SUBSIDIARIES
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Our internal control system was designed to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of our published consolidated financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements and can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer, Senior Vice President and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011. The assessment was based on criteria established in the framework *Internal Control — Integrated Framework*, issued by the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission. Based on this assessment under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2011. The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report that is included herein.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Watsco, Inc.:

We have audited Watsco, Inc.'s (the Company's) internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Watsco, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Watsco, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company acquired Carrier Enterprise II during 2011, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2011, Carrier Enterprise II's internal control over financial reporting, which represented approximately 11% of the Company's total consolidated assets as of December 31, 2011 and approximately 6% of consolidated revenues for the year ended December 31, 2011, included in the consolidated financial statements of Watsco, Inc. and subsidiaries as of and for the year ended December 31, 2011. Our audit of internal control over financial reporting of Watsco, Inc. and subsidiaries also excluded an evaluation of the internal control over financial reporting of Carrier Enterprise II.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Watsco, Inc. and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011, and our report dated February 29, 2012 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

February 29, 2012
Miami, Florida
Certified Public Accountants

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Watsco, Inc.:

We have audited the accompanying consolidated balance sheets of Watsco, Inc. and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Watsco, Inc. and subsidiaries as of December 31, 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Watsco, Inc.'s internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 29, 2012 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

February 29, 2012
Miami, Florida
Certified Public Accountants

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)	Years Ended December 31, 2011	2010	2009
Revenues	$2,977,759	$2,844,595	$2,001,815
Cost of sales	2,249,465	2,171,354	1,520,983
Gross profit	728,294	673,241	480,832
Selling, general and administrative expenses	529,244	507,669	399,772
Operating income	199,050	165,572	81,060
Interest expense, net	4,458	3,490	2,731
Income before income taxes	194,592	162,082	78,329
Income taxes	56,850	50,360	26,756
Net income	137,742	111,722	51,573
Less: net income attributable to noncontrolling interest	47,292	30,962	8,259
Net income attributable to Watsco, Inc.	$ 90,450	$ 80,760	$ 43,314
Earnings per share for Common and Class B common stock:			
Basic	$ 2.75	$ 2.49	$ 1.42
Diluted	$ 2.74	$ 2.49	$ 1.40

See accompanying notes to consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)	December 31, 2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,673	$ 126,498
Accounts receivable, net	327,664	305,088
Inventories	465,349	391,925
Other current assets	19,491	14,493
Total current assets	828,177	838,004
Property and equipment, net	39,455	31,221
Goodwill	319,440	303,703
Intangible assets, net	75,366	56,627
Other assets	5,710	7,672
	$1,268,148	$1,237,227
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	$ 19	$ 72
Borrowings under revolving credit agreements (Note 5)	20,000	—
Accounts payable	127,359	182,185
Accrued expenses and other current liabilities	75,661	83,748
Total current liabilities	223,039	266,005
Long-term obligations:		
Borrowings under revolving credit agreements (Note 5)	—	10,000
Other long-term obligations, net of current portion	—	16
Total long-term obligations	—	10,016
Deferred income taxes and other liabilities	43,399	32,310
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, $0.50 par value, 60,000,000 shares authorized; 34,676,359 and 34,447,037 shares issued in 2011 and 2010, respectively	17,338	17,223
Class B common stock, $0.50 par value, 10,000,000 shares authorized; 4,699,895 and 4,373,301 shares issued in 2011 and 2010, respectively	2,350	2,187
Preferred stock, $0.50 par value, 10,000,000 shares authorized; no shares issued	—	—
Paid-in capital	493,519	472,883
Accumulated other comprehensive loss, net of tax	(352)	(593)
Retained earnings	404,360	387,186
Treasury stock, at cost, 6,322,650 shares of Common stock and 48,263 shares of Class B common stock in 2011 and 2010	(114,425)	(114,425)
Total Watsco, Inc. shareholders' equity	802,790	764,461
Noncontrolling interest	198,920	164,435
Total shareholders' equity	1,001,710	928,896
	$1,268,148	$1,237,227

See accompanying notes to consolidated financial statements.

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

(In thousands, except share and per share data)	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Noncontrolling Interest	Total
Balance at December 31, 2008	**28,325,638**	**$ 17,349**	**$ 282,636**	**$ (1,125)**	**$ 386,225**	**$(114,425)**	**$ —**	**$ 570,660**
Net income					43,314		8,259	51,573
Changes in unrealized gains and losses on available-for-sale securities and derivative instruments, net of income taxes				304				304
Comprehensive income								51,877
Retirement of common stock	(206,029)	(103)	(9,335)					(9,438)
Common stock contribution to 401(k) plan	33,779	17	1,280					1,297
Stock issuances from exercise of stock options and employee stock purchase plan	823,320	412	11,885					12,297
Excess tax benefit from share-based compensation			9,589					9,589
Issuances of non-vested (restricted) shares of common stock	86,635	43	(43)					—
Forfeitures of non-vested (restricted) shares of common stock	(5,168)	(3)	3					—
Share-based compensation			5,264					5,264
Cash dividends declared on Common and Class B common stock, $1.89 per share					(57,085)			(57,085)
Common and Class B common stock issued for joint venture	3,080,469	1,540	149,516					151,056
Fair value increment over carrying value of locations contributed to joint venture			10,768					10,768
Fair value of noncontrolling interest							108,883	108,883
Share of carrying value of our locations contributed to joint venture							12,448	12,448
Non-cash capital contribution of inventory by noncontrolling interest							32,000	32,000
Distribution to noncontrolling interest							(4,808)	(4,808)
Balance at December 31, 2009	**32,138,644**	**19,255**	**461,563**	**(821)**	**372,454**	**(114,425)**	**156,782**	**894,808**

Continued on next page.

(In thousands, except share and per share data)	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Noncontrolling Interest	Total
Balance at December 31, 2009	**32,138,644**	**19,255**	**461,563**	**(821)**	**372,454**	**(114,425)**	**156,782**	**894,808**
Net income					80,760		30,962	111,722
Changes in unrealized gains and losses on available-for-sale securities and derivative instrument, net of income taxes				228				228
Comprehensive income								111,950
Retirement of common stock	(75,721)	(38)	(4,329)					(4,367)
Common stock contribution to 401(k) plan	9,975	5	484					489
Stock issuances from exercise of stock options and employee stock purchase plan	268,827	134	7,182					7,316
Excess tax benefit from share-based compensation			2,862					2,862
Issuances of non-vested (restricted) shares of common stock	135,000	67	(67)					—
Forfeitures of non-vested (restricted) shares of common stock	(27,300)	(13)	13					—
Share-based compensation			5,175					5,175
Cash dividends declared on Common and Class B common stock, $2.04 per share					(66,028)			(66,028)
Distributions to noncontrolling interest							(23,309)	(23,309)
Balance at December 31, 2010	**32,449,425**	**19,410**	**472,883**	**(593)**	**387,186**	**(114,425)**	**164,435**	**928,896**

Continued on next page.

(In thousands, except share and per share data)	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Noncontrolling Interest	Total
Balance at December 31, 2010	**32,449,425**	**19,410**	**472,883**	**(593)**	**387,186**	**(114,425)**	**164,435**	**928,896**
Net income					90,450		47,292	137,742
Changes in unrealized gains and losses on available-for-sale securities and derivative instrument, net of income taxes				241				241
Comprehensive income								137,983
Retirement of common stock	(10,143)	(5)	(612)					(617)
Common stock contribution to 401(k) plan	27,240	14	1,704					1,718
Stock issuances from exercise of stock options and employee stock purchase plan	139,717	69	5,484					5,553
Excess tax benefit from share-based compensation			859					859
Issuances of non-vested (restricted) shares of common stock	429,602	215	(215)					—
Forfeitures of non-vested (restricted) shares of common stock	(30,500)	(15)	15					—
Share-based compensation			6,340					6,340
Cash dividends declared on Common and Class B common stock, $2.23 per share					(73,276)			(73,276)
Return of capital contribution to noncontrolling interest							(32,000)	(32,000)
Fair value increment over carrying value of locations contributed to joint venture			7,061					7,061
Fair value of noncontrolling interest							7,708	7,708
Share of carrying value of our locations contributed to joint venture							34,919	34,919
Distributions to noncontrolling interest							(23,434)	(23,434)
Balance at December 31, 2011	**33,005,341**	**$ 19,688**	**$493,519**	**$ (352)**	**$ 404,360**	**$(114,425)**	**$ 198,920**	**$1,001,710**

See accompanying notes to consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)	Years Ended December 31, 2011	2010	2009
Cash flows from operating activities:			
Net income	$ 137,742	$ 111,722	$ 51,573
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	11,725	10,771	8,533
Share-based compensation	6,663	5,175	5,264
Deferred income tax provision	8,310	12,725	1,972
Provision for doubtful accounts	2,374	3,016	5,934
Non-cash contribution for 401(k) plan	1,718	489	1,297
Loss (gain) on sale of property and equipment	171	(432)	(47)
Excess tax benefits from share-based compensation	(859)	(2,862)	(9,589)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable	11,987	(41,250)	67,243
Inventories	(22,489)	21,447	1,204
Accounts payable and other liabilities	(98,611)	28,088	(46,386)
Other, net	2,721	3,910	1,289
Net cash provided by operating activities	61,452	152,799	88,287
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(43,455)	(3,824)	(9,840)
Capital expenditures	(13,925)	(8,421)	(5,912)
Proceeds from sale of property and equipment	737	2,111	249
Net cash used in investing activities	(56,643)	(10,134)	(15,503)
Cash flows from financing activities:			
Dividends on Common and Class B common stock	(73,276)	(66,028)	(57,085)
Distributions to noncontrolling interest	(26,469)	(13,644)	(4,808)
Return of capital contribution to noncontrolling interest	(32,000)	—	—
Repayments of other long-term obligations	(69)	(729)	(234)
Payment of fees related to revolving credit agreements	(38)	—	(6,695)
Excess tax benefits from share-based compensation	859	2,862	9,589
Net proceeds from issuances of common stock	5,359	6,042	10,335
Net borrowings (repayments) under revolving credit agreements	10,000	(2,763)	(7,237)
Net cash used in financing activities	(115,634)	(74,260)	(56,135)
Net (decrease) increase in cash and cash equivalents	(110,825)	68,405	16,649
Cash and cash equivalents at beginning of year	126,498	58,093	41,444
Cash and cash equivalents at end of year	$ 15,673	$ 126,498	$ 58,093

Supplemental cash flow information (Note 15)

See accompanying notes to consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Watsco, Inc. and its subsidiaries (collectively, "Watsco," which may be referred to as *we, us* or *our*) was incorporated in 1956 and is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry. At December 31, 2011 we operated from 542 locations in 38 states, Mexico and Puerto Rico with additional market coverage on an export basis to Latin America and the Caribbean.

Basis of Consolidation

The consolidated financial statements contained in this report include the accounts of Watsco and all of its wholly-owned subsidiaries and include the accounts of two joint ventures with Carrier Corporation ("Carrier"), in each of which Watsco maintains a 60% controlling interest. All significant intercompany balances and transactions have been eliminated.

Foreign Currency Translation and Transactions

Our foreign operations generally consider their functional currency to be the U.S. dollar because the majority of their transactions are denominated in U.S dollars. Gains or losses resulting from transactions denominated in other currencies are recognized in income at each reporting date.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. 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 consolidated financial statements and the reported amounts of revenues and expenses for the reporting period. Significant estimates include valuation reserves for accounts receivable, inventory and income taxes, reserves related to self-insurance programs and valuation of goodwill and indefinite lived intangible assets. While we believe that these estimates are reasonable, actual results could differ from such estimates.

Cash Equivalents

All highly liquid instruments purchased with original maturities of three months or less are considered to be cash equivalents. Cash equivalents at December 31, 2010 included $10,600 of investment grade municipal securities with put options to the issuer of seven days, which were considered to be cash equivalents for purposes of the consolidated financial statements. Such securities were collateralized by a letter of credit issued by the remarketing agent. At December 31, 2011, no municipal securities were held.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consists of trade receivables due from customers. Our customers are primarily independent contractors and dealers who service the replacement and new construction markets for residential and light commercial central air conditioning, heating and refrigeration systems. We routinely grant credit to customers to facilitate revenue growth and maintain branch locations for product sales and distribution. When determining whether to grant or increase credit, management considers a number of factors, which include creditworthiness, customer payment history and historical experience with the customer and other information. Consistent with industry practices, we normally require payment from our customers within 30 to 45 days. We record our trade receivables at the invoiced amount less an allowance for doubtful accounts. An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of customers to make required payments. When preparing these estimates, we consider a number of factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends and other information. We typically do not require our customers to provide collateral. Accounts receivable reserve policies are reviewed periodically, reflecting current risks, trends and changes in industry conditions. The past due status of an account is determined based on stated payment terms. Upon determination that an account is uncollectible, we write off the receivable balance. At December 31, 2011 and 2010, the allowance for doubtful accounts totaled $12,946 and $6,343, respectively. Although we believe the allowance is sufficient, a declining economic environment could lead to the deterioration in the financial condition of our customers, resulting in an impairment of their ability to make payments and additional allowances may be required.

Inventories

Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are valued at the lower of cost or market using a weighted-average cost basis and the first-in, first-out method. As part of the valuation process, inventory reserves are established to state excess, slow-moving and damaged inventories at their estimated net realizable value. Inventory reserve policies are reviewed periodically, reflecting current risks, trends and changes in industry conditions. A reserve for estimated inventory shrinkage is also maintained to consider inventory shortages determined from cycle counts and physical inventories.

Vendor Rebates

We have arrangements with several vendors that provide rebates payable to us when we achieve any of a number of measures, generally related to the volume level of purchases. We account for such rebates as a reduction of inventory until we sell the product, at which time such rebates are reflected as a reduction of cost of sales in our consolidated statements of income. Throughout the year, we estimate the amount of the rebate based on our estimate of purchases to date relative to the purchase levels that mark our progress toward earning the rebates. We continually revise these estimates of earned vendor rebates based on actual purchase levels. At December 31, 2011 and 2010, we have $6,386 and $6,226, respectively, of rebates recorded as a reduction of inventory. Substantially all vendor rebate receivables are collected within three months immediately following the end of the year.

Marketable Securities

Investments in marketable equity securities of $163 and $157 at December 31, 2011 and 2010, respectively, are included in other assets in our consolidated balance sheets and are classified as available-for-sale. These equity securities are recorded at market using the specific identification method with unrealized holding losses, net of deferred taxes, reported in accumulated other comprehensive loss (“OCL”) within shareholders’ equity. Dividend and interest income are recognized in the statement of income when earned. At December 31, 2011 and 2010, $352 and $355 of unrealized losses, net of deferred tax benefits of $216 and $217, respectively, was included in accumulated OCL.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization of property and equipment is computed using the straight-line method. Buildings and improvements are depreciated or amortized over estimated useful lives ranging from 3-40 years. Leasehold improvements are amortized over the shorter of the respective lease terms or estimated useful lives. Estimated useful lives for other depreciable assets range from 3-10 years.

Goodwill and Other Intangible Assets

Goodwill is recorded when the purchase price paid for an acquisition exceeds the fair value of the net identified tangible and intangible assets acquired. We evaluate goodwill for impairment at least annually or more frequently if events or changes in circumstances indicate that the carrying value may not be recoverable. We test goodwill for impairment by first comparing the fair value of our reporting unit to its carrying value. If the fair value is determined to be less than its carrying value, a second step is performed to measure the amount of impairment loss.

Other intangible assets primarily consist of the value of trade names and trademarks, distributor agreements, customer relationships and non-compete agreements. Indefinite lived intangibles not subject to amortization are assessed for impairment at least annually, or more frequently if events or changes in circumstances indicate they may be impaired, by comparing the fair value of the intangible asset to its carrying amount to determine if a write-down to fair value is required. Finite lived intangible assets are amortized using the straight-line method over their respective estimated useful lives.

We perform our annual impairment tests each year and have determined there to be no impairment for any of the periods presented. There have been no events or circumstances from the date of our assessment that would impact this conclusion.

Impairment of Long-Lived Assets Other than Goodwill

Long-lived assets, including intangible assets with finite lives, are tested for recoverability when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. Recoverability is evaluated by determining whether the amortization of the balance over its remaining life can be recovered through undiscounted future operating cash flows. The amount of impairment if any, is measured based on projected discounted cash flows using a discount rate reflecting the average cost of funds and compared to the asset’s carrying value. As of December 31, 2011, there were no such events or circumstances.

Fair Value Measurements

We carry various assets and liabilities at fair value in the consolidated balance sheets. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements are classified based on the following fair value hierarchy:

Level 1 Quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Observable inputs other than Level 1 prices such as quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; or model-driven valuations or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs for the asset or liability. These inputs reflect our own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Revenue Recognition

Revenue primarily consists of sales of air conditioning, heating and refrigeration equipment and related parts and supplies and is recorded when shipment of products or delivery of services has occurred. Assessment of collection is based on a number of factors, including past transactions, creditworthiness of customers, historical trends and other information. Substantially all customer returns relate to products that are returned under warranty obligations underwritten by manufacturers, effectively mitigating our risk of loss for customer returns. Taxes collected from our customers and remitted to governmental authorities are presented in our consolidated statements of income on a net basis.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense amounted to $25,052, $26,646 and $12,106 for the years ended December 31, 2011, 2010 and 2009, respectively.

Shipping and Handling

Shipping and handling costs associated with inbound freight are capitalized to inventories and relieved through cost of sales as inventories are sold. Shipping and handling costs associated with the delivery of products is included in selling, general and administrative expenses. Shipping and handling costs included in selling, general and administrative expenses amounted to $30,234, $25,443 and $14,829 for the years ended December 31, 2011, 2010 and 2009, respectively.

Share-Based Compensation

The fair value of stock option and non-vested (restricted) stock awards are expensed on a straight-line basis over the vesting period of the awards. Share-based compensation expense is included in selling, general and administrative expenses in our consolidated statements of income. Cash flows from the tax benefits resulting from tax deductions in excess of the compensation expense recognized for those options are classified as financing cash flows. Tax benefits resulting from tax deductions in excess of share-based compensation expense recognized are credited to paid-in capital in the consolidated balance sheets.

Income Taxes

We record U.S. federal, state and foreign income taxes currently payable, as well as deferred taxes due to temporary differences between reporting income and expenses for financial statement purposes versus tax purposes. Deferred tax assets and liabilities reflect the temporary differences between the financial statement and income tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized as income or expense in the period that includes the enactment date. We and our eligible subsidiaries file a consolidated U.S. federal income tax return. As income tax returns are generally not filed until well after the closing process for the December 31 financial statements is complete, the amounts recorded at December 31 reflect estimates of what the final amounts will be when the actual income tax returns are filed for that calendar year. In addition, estimates are often required with respect to, among other things, the appropriate state income tax rates to use in the various states that we and our subsidiaries are required to file, the potential utilization of operating loss carryforwards and valuation allowances required, if any, for tax assets that may not be realizable in the future.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the "more-likely-than-not" threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority.

Earnings per Share

We compute earnings per share using the two-class method. The two-class method of computing earnings per share is an earnings allocation formula that determines earnings per share for common stock and any participating securities according to dividends declared (whether paid or unpaid) and participation rights in undistributed earnings. Shares of our non-vested (restricted) stock are considered participating securities because these awards contain a non-forfeitable right to dividends irrespective of whether the awards ultimately vest. Under the two-class method, earnings per common share for our Common and Class B common stock is computed by dividing the sum of distributed earnings to common shareholders and undistributed earnings allocated to common shareholders by the weighted-average number of shares of Common and Class B common stock outstanding for the period. In applying the two-class method, undistributed earnings are allocated to Common stock, Class B common stock and participating securities based on the weighted-average shares outstanding during the period.

Derivative Instruments

All derivatives, whether designated in hedging relationships or not, are required to be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of changes in the fair value of the derivative are recorded in OCL and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings. See Note 11, "Derivative Financial Instrument."

Comprehensive Income

Comprehensive income presents a measure of all changes in shareholders' equity except for changes resulting from transactions with shareholders in their capacity as shareholders. Our comprehensive income consists of net income, changes in the unrealized losses on available-for-sale securities and the effective portion of cash flow hedges as discussed in Note 11. The components of comprehensive income are as follows:

Years Ended December 31,	2011	2010	2009
Net income	**$137,742**	$ 111,722	$51,573
Changes in unrealized losses on derivative instruments, net of income tax expense of $146, $117 and $205, respectively	**238**	194	346
Changes in unrealized losses on available-for-sale securities, net of income tax expense (benefit) of $3, $19 and $(29), respectively	**3**	34	(42)
Comprehensive income	**137,983**	111,950	51,877
Less: comprehensive income attributable to noncontrolling interest	**47,292**	30,962	8,259
Comprehensive income attributable to Watsco, Inc.	**$ 90,691**	$ 80,988	$ 43,618

Recently Issued Accounting Standards

Presentation of Comprehensive Income

In June 2011, the FASB issued guidance that requires companies to present net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of shareholders' equity. In addition, in December 2011, the FASB issued guidance that defers the requirement to present components of reclassifications of other comprehensive income on the face of the income statement. This guidance will be applied retrospectively and will be effective for our interim and annual reporting periods beginning after December 15, 2011. We expect to include in our filings, when applicable, new primary consolidated statements of other comprehensive income which will immediately follow our consolidated statements of income.

Goodwill Impairment Testing

In September 2011, the FASB amended the guidance on the annual testing of goodwill for impairment. The amended guidance will allow companies to assess qualitative factors to determine whether it is necessary to perform the two-step

goodwill impairment test required under current accounting standards. This guidance is effective for annual and interim impairment tests after December 15, 2011. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

2. EARNINGS PER SHARE

The following table presents the calculation of basic and diluted earnings per common share for our Common and Class B common stock:

Years Ended December 31,	2011	2010	2009
Basic Earnings per Share:			
Net income attributable to Watsco, Inc. shareholders	**$ 90,450**	$ 80,760	$ 43,314
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**6,045**	4,775	3,320
Earnings allocated to Watsco, Inc. shareholders	**$ 84,405**	$ 75,985	$ 39,994
Weighted-average Common and Class B common shares outstanding for basic earnings per share	**30,678,206**	30,467,212	28,223,275
Basic earnings per share for Common and Class B common stock	**$ 2.75**	$ 2.49	$ 1.42
Allocation of earnings for Basic:			
Common stock	**$ 76,574**	$ 68,856	$ 35,963
Class B common stock	**7,831**	7,129	4,031
	$ 84,405	$ 75,985	$ 39,994
Diluted Earnings per Share:			
Net income attributable to Watsco, Inc. shareholders	**$ 90,450**	$ 80,760	$ 43,314
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**6,042**	4,772	3,320
Earnings allocated to Watsco, Inc. shareholders	**$ 84,408**	$ 75,988	$ 39,994
Weighted-average Common and Class B common shares outstanding for basic earnings per share	**30,678,206**	30,467,212	28,223,275
Effect of dilutive stock options	**75,085**	111,396	298,162
Weighted-average Common and Class B common shares outstanding for diluted earnings per share	**30,753,291**	30,578,608	28,521,437
Diluted earnings per share for Common and Class B common stock	**$ 2.74**	$ 2.49	$ 1.40

Diluted earnings per share for our Common stock assumes the conversion of all of our Class B common stock into Common stock as of the beginning of the fiscal year and adjusts for the dilutive effects of outstanding stock options using the treasury stock method; therefore, no allocation of earnings to Class B common stock is required. As of December 31, 2011, 2010 and 2009, our outstanding Class B common stock was convertible into 2,846,334, 2,858,592 and 2,844,935 shares of our Common stock, respectively.

Diluted earnings per share excluded 33,511, 129,641 and 217,832 shares for the years ended December 31, 2011, 2010 and 2009, respectively, related to stock options with an exercise price per share greater than the average market value, resulting in an anti-dilutive effect on diluted earnings per share.

3. SUPPLIER CONCENTRATION

We have four key suppliers of HVAC/R equipment products. Purchases from these four suppliers comprised 71%, 72% and 66% of all purchases made in 2011, 2010 and 2009, respectively, with the largest supplier, Carrier and its affiliates, accounting for 54%, 52% and 41% of all purchases made in each of the years ended December 31, 2011, 2010 and 2009, respectively. Any significant interruption by Carrier or the other key suppliers in the delivery of products could impair our ability to maintain current inventory levels or a termination of a distribution agreement could disrupt the operations of certain subsidiaries and could materially impact our consolidated results of operations and consolidated financial position. See Note 14.

4. PROPERTY AND EQUIPMENT

Property and equipment, net, consists of:

December 31,	2011	2010
Land	**$ 1,388**	$ 1,388
Buildings and improvements	**42,408**	34,521
Machinery, vehicles and equipment	**52,636**	48,821
Furniture and fixtures	**15,049**	13,765
	111,481	98,495
Less: accumulated depreciation and amortization	**(72,026)**	(67,274)
	$ 39,455	$ 31,221

Depreciation and amortization expense related to property and equipment included in selling, general and administrative expenses amounted to $9,364, $8,832 and $7,342 for the years ended December 31, 2011, 2010 and 2009, respectively.

5. DEBT

Watsco Revolving Credit Agreement

We maintain a bank-syndicated, unsecured revolving credit agreement that provides for borrowings of up to $300,000. Borrowings are used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends, stock repurchases and issuances of letters of credit. Included in the facility are a $25,000 swingline subfacility and a $50,000 letter of credit subfacility. Borrowings bear interest at primarily LIBOR-based rates plus a spread which ranges from 37.5 to 112.5 basis-points depending upon our ratio of total debt to EBITDA (LIBOR plus 40 basis-points at December 31, 2011). We pay a variable commitment fee on the unused portion of the commitment, ranging from 7.5 to 20 basis-points (8 basis-points at December 31, 2011). Alternatively, we may elect to have borrowings bear interest at the Prime Rate or the Federal Funds Rate plus our spread. At December 31, 2011 and 2010, $20,000 and $10,000 were outstanding under this revolving credit agreement, respectively. The credit agreement matures in August 2012 and, accordingly, borrowings outstanding under the credit agreement are classified as current liabilities in our consolidated balance sheet at December 31, 2011. We have obtained indicative term sheets at competitive rates and terms and intend to refinance this bank-syndicated, unsecured revolving credit agreement prior to its maturity however, there is no assurance that we will be able to refinance with the same terms and conditions.

In July 2009, we amended our credit agreement to allow for the consummation of the first joint venture with Carrier, Carrier Enterprise, LLC (“Carrier Enterprise I”). We paid an amendment fee of $5,483, which is being amortized ratably through the maturity of the facility in August 2012. All other significant terms and conditions remained the same, including capacity, pricing and covenant structure.

The revolving credit agreement contains customary affirmative and negative covenants including financial covenants with respect to consolidated leverage and interest coverage ratios, limits on capital expenditures, dividends and share repurchases, and other restrictions. We believe we were in compliance with all covenants and financial ratios at December 31, 2011.

Carrier Enterprise I Revolving Credit Agreement

Carrier Enterprise I maintains a separate bank-syndicated, secured revolving credit agreement that provides for borrowings of up to $125,000. Effective July 1, 2011, Carrier Enterprise I’s standard payment terms with Carrier for inventory purchases accelerated. As a result of this change, on July 26, 2011 we amended the revolving credit agreement to increase available borrowings to $125,000 from $75,000. All other terms and conditions of the credit facility remained the same. Borrowings under the credit facility are used for general corporate purposes, including working capital and permitted acquisitions. Included in the facility are a $15,000 swing loan subfacility and a $5,000 letter of credit subfacility. Borrowings bear interest at primarily LIBOR-based rates plus a spread which ranges from 275 to 325 basis-points depending upon Carrier Enterprise I’s ratio of total debt to EBITDA (LIBOR plus 275 basis-points at December 31, 2011). Carrier Enterprise I pays a fixed commitment fee on the unused portion of the commitment of 50 basis-points. Alternatively, Carrier Enterprise I has the option to elect to have borrowings bear interest at the higher of the Prime Rate, the Federal Funds Rate plus 50 basis-points or a LIBOR-based rate plus 150 basis-points. The credit facility is secured by substantially all tangible and intangible assets of Carrier Enterprise I. At December 31, 2011 and 2010, no borrowings were outstanding under this credit facility. The credit agreement matures in July 2012. We have obtained indicative term sheets at competitive rates and terms and intend to refinance, on an unsecured basis, this bank-syndicated revolving credit agreement prior to its maturity however, there is no assurance that we will be able to refinance with the same terms and conditions. Carrier Enterprise I paid fees of $1,212 in connection with entering into the credit agreement, which are being amortized ratably through the maturity of the facility in July 2012.

The Carrier Enterprise I revolving credit agreement contains customary affirmative and negative covenants and representations and warranties, including compliance with a monthly borrowing base certificate with advance rates on accounts receivable and inventory, two financial covenants with respect to its leverage and interest coverage ratios, limits on capital expenditures and cash distributions, and other restrictions. We believe Carrier Enterprise I was in compliance with all covenants and financial ratios at December 31, 2011.

6. INCOME TAXES

The components of income tax expense from our wholly-owned operations and investments and our 60% controlling interest in joint ventures with Carrier are as follows:

Years Ended December 31,	2011	2010	2009
U.S. Federal	**$50,197**	$ 44,845	$ 24,308
State	**6,338**	5,515	2,448
Foreign	**315**	—	—
	$ 56,850	$ 50,360	$26,756
Current	**$ 48,540**	$ 37,635	$ 24,784
Deferred	**8,310**	12,725	1,972
	$ 56,850	$ 50,360	$26,756

We calculate our income tax expense and our effective tax rate for 100% of income attributable to our wholly-owned operations and investments and 60% of income attributable to our joint ventures with Carrier, which are taxed as partnerships for income tax purposes.

Following is a reconciliation of the effective income tax rate:

Years Ended December 31,	2011	2010	2009
U.S. federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal benefit and other	**3.1**	3.0	2.8
Tax effects on foreign income	**(0.1)**	—	—
Effective income tax rate attributable to Watsco, Inc.	**38.0**	38.0	37.8
Taxes attributable to noncontrolling interest	**(8.8)**	(6.9)	(3.6)
Effective income tax rate	**29.2%**	31.1%	34.2%

The following is a summary of the significant components of our current and long-term deferred tax assets and liabilities:

December 31,	2011	2010
Current deferred tax assets:		
Capitalized inventory costs and inventory reserves	**$ 2,966**	$ 2,183
Allowance for doubtful accounts	**1,634**	1,122
Other current deferred tax assets	**979**	845
Self-insurance reserves	**769**	1,523
Total current deferred tax assets (1)	**6,348**	5,673
Long-term deferred tax assets:		
Share-based compensation	**11,688**	9,890
Other long-term deferred tax assets	**1,021**	834
Net operating loss carryforwards	**648**	1,338
Unrealized loss on derivative instruments	**—**	152
	13,357	12,214
Valuation allowance	**(423)**	(1,117)
Total long-term deferred tax assets (2)	**12,934**	11,097
Long-term deferred tax liabilities:		
Deductible goodwill	**(46,057)**	(37,567)
Depreciation	**(2,500)**	(20)
Other long-term deferred tax liabilities	**(1,141)**	(1,142)
Total long-term deferred tax liabilities (2)	**(49,698)**	(38,729)
Net deferred tax liabilities	**$(30,416)**	$(21,959)

(1) *Current deferred tax assets have been included in the consolidated balance sheets in other current assets.*
(2) *Long-term deferred tax assets and liabilities have been included in the consolidated balance sheets in deferred income taxes and other liabilities.*

U.S. income taxes have not been provided on the undistributed earnings of international subsidiaries, as those earnings are considered to be permanently reinvested in the operations of those subsidiaries.

Management has determined that $423 and $1,117 of valuation allowance was necessary at December 31, 2011 and 2010, respectively, to reduce the deferred tax assets to the amount that will more likely than not be realized. At December 31, 2011, there were state and other net operating loss carryforwards of $9,491, which expire in varying amounts from 2012 through 2031. These amounts are available to offset future taxable income. There were no federal net operating loss carryforwards at December 31, 2011.

We are subject to U.S. federal income tax, income tax of multiple state jurisdictions and foreign income tax. We are subject to tax audits in the various jurisdictions until the respective statutes of limitations expire. We are no longer subject to U.S. federal tax examinations for tax years prior to 2008. For the majority of states, we are no longer subject to tax examinations for tax years prior to 2007.

As of December 31, 2011 and 2010, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was $2,424 and $1,889, respectively. Of these totals, $1,773 and $1,419, respectively, (net of the federal benefit received from state positions) represent the amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate. Our continuing practice is to recognize penalties within selling, general and administrative expenses and interest related to income tax matters in income tax expense in the consolidated statements of income. As of December 31, 2011 and 2010, the cumulative amount of estimated accrued interest and penalties resulting from such unrecognized tax benefits was $495 and $379, respectively, and is included in deferred income taxes and other liabilities in the accompanying consolidated balance sheets.

The change in gross unrecognized tax benefits during 2011 and 2010 is as follows:

Gross balance at January 1, 2010	$1,990
Additions based on tax positions related to the current year	197
Reductions due to lapse of applicable statute of limitations	(298)
Gross balance at December 31, 2010	1,889
Additions based on tax positions related to the current year	542
Reductions due to lapse of applicable statute of limitations	(7)
Gross balance at December 31, 2011	**$ 2,424**

7. SHARE-BASED COMPENSATION AND BENEFIT PLANS

Share-Based Compensation Plans

We have two share-based compensation plans for employees. The 2001 Incentive Compensation Plan (the "2001 Plan") provides for the award of a broad variety of share-based compensation alternatives such as non-qualified stock options, incentive stock options, non-vested (restricted) stock, performance awards, dividend equivalents, deferred stock and stock appreciation rights at no less than 100% of the market price on the date the award is granted. To date, awards under the 2001 Plan consist of non-qualified stock options and non-vested (restricted) stock. Under the 2001 Plan, awards for an aggregate of 4,000,000 shares of Common and Class B common stock may be granted. A total of 1,839,419 shares of Common stock, net of cancellations and 1,577,298 shares of Class B common stock, net of cancellations have been awarded under the 2001 Plan as of December 31, 2011. There were 583,290 shares of common stock reserved for future grants as of December 31, 2011 under the 2001 Plan. There were 385,150 options of common stock outstanding under the 2001 Plan at December 31, 2011. Options under the 2001 Plan vest over two to five years of service and have contractual terms of five to ten years.

Awards of non-vested (restricted) stock, which are granted at no cost to the employee, vest upon attainment of a certain age, generally the employee's respective retirement age. Vesting may be accelerated in certain circumstances prior to the original vesting date.

We also maintain the 1991 Stock Option Plan (the "1991 Plan"), which expired during 2001; therefore, no additional options may be granted. There are no options of common stock outstanding under the 1991 Plan at December 31, 2011.

A summary of stock option activity under the 2001 Plan and 1991 Plan as of December 31, 2011, and changes during 2011, is as follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Options outstanding at January 1, 2011	493,000	$ 43.80		
Granted	70,000	62.75		
Exercised	(126,100)	37.46		
Forfeited	(34,000)	49.92		
Expired	(17,750)	64.56		
Options outstanding at December 31, 2011	**385,150**	**$ 47.82**	**2.76**	**$ 6,892**
Options exercisable at December 31, 2011	**150,734**	**$ 34.30**	**1.54**	**$ 4,727**

The weighted-average grant date fair value of stock options granted during 2011, 2010 and 2009 was $12.31, $11.45 and $9.93, respectively. The total intrinsic value of stock options exercised during 2011, 2010 and 2009 was $4,724, $6,559 and $11,555, respectively. The fair value of stock options that vested during 2011, 2010 and 2009 was $475, $597 and $3,750, respectively.

A summary of non-vested (restricted) stock activity as of December 31, 2011, and changes during 2011, is shown below:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested (restricted) stock outstanding at January 1, 2011	1,872,291	$ 31.47
Granted	429,602	63.87
Vested	(9,445)	50.71
Forfeited	(30,500)	54.64
Non-vested (restricted) stock outstanding at December 31, 2011	**2,261,948**	**$ 37.23**

The weighted-average grant date fair value of non-vested (restricted) stock granted during 2011, 2010 and 2009 was $63.87, $49.43 and $49.62, respectively. The fair value of non-vested stock that vested during 2011, 2010 and 2009 was $672, $3,609 and $1,460, respectively.

During 2011, 2010 and 2009, 2,527 shares of Common stock with an aggregate fair market value of $180, 19,678 shares of Common stock with an aggregate fair market value of $1,155 and 601 shares of Common stock with an aggregate fair market value of $23, respectively, were delivered as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of non-vested (restricted) stock. These shares were retired upon delivery. At December 31, 2011, we were obligated to issue 58,301 shares of non-vested (restricted) Class B common stock under an executive compensation agreement. We issued these non-vested (restricted) shares of Class B common stock in the first quarter of 2012.

Share-Based Compensation Fair Value Assumptions

The fair value of each stock option award is estimated on the date of grant using the Black-Scholes option pricing valuation model based on the weighted-average assumptions noted in the table below. The fair value of each stock option award, which is subject to graded vesting, is expensed, net of estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the stock option. We use historical data to estimate stock option forfeitures within the valuation model. The expected term of stock option awards granted represents the period of time that stock option awards granted are expected to be outstanding and was calculated using the simplified method for plain vanilla options, which we estimate provides a reasonable estimate of expected life based on our historical data. The risk-free rate for periods within the contractual life of the stock option award is based on the yield curve of a zero-coupon U.S. Treasury bond on the date the stock option award is granted with a maturity equal to the expected term of the stock option award. Expected volatility is based on historical volatility of our stock.

The weighted-average assumptions relating to the valuation of our stock options were as follows:

Years Ended December 31,	2011	2010	2009
Expected term in years	**4.25**	4.25	4.25
Risk-free interest rate	**1.12%**	1.14%	1.96%
Expected volatility	**32.59%**	33.35%	34.03%
Expected dividend yield	**3.48%**	3.65%	4.32%

Share-Based Compensation Expense

Share-based compensation expense included in selling, general and administrative expenses amounted to $6,663, $5,175 and $5,264 for the years ended December 31, 2011, 2010 and 2009, respectively.

Cash received from Common stock issued as a result of stock options exercised during 2011, 2010 and 2009 was $4,530, $5,285 and $9,592, respectively. During 2011, 2010 and 2009, 7,616 shares of Common stock with an aggregate fair market value of $437, 56,043 shares of Common and Class B common stock with an aggregate fair market value of $3,212 and 205,428 shares of Common and Class B common stock with an aggregate fair market value of $9,415, respectively, were delivered as payment in lieu of cash for stock option exercises and related tax withholdings. These shares were retired upon delivery. In connection with stock option exercises, the tax benefits realized from share-based compensation plans totaled $916, $3,083 and $9,789, for the years ended December 31, 2011, 2010 and 2009, respectively.

At December 31, 2011, there was $1,354 of unrecognized share-based compensation expense related to stock options granted under the 2001 Plan, which is expected to be recognized over a weighted-average period of 1.7 years. At December 31, 2011, there was $55,249 of unrecognized share-based compensation expense related to non-vested (restricted) stock, which is expected to be recognized over a weighted-average period of 10.9 years. In the event that vesting is accelerated for any circumstance, as defined in the related agreements, the remaining unrecognized share-based compensation expense would be immediately recognized as a charge to earnings. Approximately $38,000 of the unrecognized share-based compensation for shares of non-vested (restricted) stock is related to awards granted to our Chief Executive Officer that vest in approximately 11 years upon his attainment of age 82.

Employee Stock Purchase Plan

The Watsco, Inc. Third Amended and Restated 1996 Qualified Employee Stock Purchase Plan (the "ESPP") provides for up to 1,500,000 shares of Common stock to be available for purchase by our full-time employees with at least 90 days of service. The plan allows participating employees to purchase, through payroll deductions or lump-sum contribution, shares of Common stock with a discount of 5% of the fair market value at specified times. During 2011, 2010 and 2009, employees purchased 8,520, 8,515 and 10,917 shares of Common stock at an average price of $59.44, $51.69 and $38.18 per share, respectively. Cash dividends received by the ESPP were reinvested in Common stock and resulted in the issuance of 5,097, 5,812 and 7,503 additional shares for the years ended December 31, 2011, 2010 and 2009, respectively. We received net proceeds of $829, $757 and $743, respectively, during 2011, 2010 and 2009, for shares of our Common stock issued under the ESPP. At December 31, 2011, 555,059 shares remained available for purchase under the plan.

401(k) Plan

We have a profit sharing retirement plan for our employees that is qualified under Section 401(k) of the Internal Revenue Code. Annual matching contributions are made based on a percentage of eligible employee compensation deferrals. The contribution has historically been made with the issuance of Common stock to the plan on behalf of our employees. For the years ended December 31, 2011, 2010 and 2009, we issued 27,240, 9,975 and 33,779 shares of Common stock to the plan representing the Common stock discretionary matching contribution of $1,718, $489 and $1,297, respectively.

8. ACQUISITIONS

Carrier Enterprise Northeast, LLC Joint Venture

On April 29, 2011, we completed the formation of a second joint venture with Carrier to distribute Carrier, Bryant and Payne branded residential, light-commercial and applied-commercial HVAC products and related parts and supplies in the northeast U.S. Carrier contributed 28 of its company-operated northeastern locations to the newly formed joint venture and we contributed 14 of our northeast locations. We purchased a 60% controlling interest in the joint venture for a fair value of $49,229. Total consideration paid by us for our 60% controlling interest in the joint venture was composed of cash consideration of $35,700 and our contribution of 14 northeastern locations valued at $14,769. The final purchase price was subject to a $1,240 net working capital adjustment pursuant to the related purchase and contribution agreement.

The purchase price resulted in the recognition of $32,957 in goodwill and intangibles. The fair value of the identified intangible assets was $20,600 and consisted of $13,400 in trade names and distribution rights and $7,200 in customer relationships to be amortized over a 12 year period. The tax basis of the acquired goodwill recognized is deductible for income tax purposes over 15 years.

The purchase price allocation is based upon a purchase price of $49,229, which represents the fair value of our 60% controlling interest in the joint venture. The table below presents the allocation of the total consideration to tangible and intangible assets acquired, liabilities assumed and the noncontrolling interest from the acquisition of our 60% controlling interest in the joint venture based on the respective fair values as of April 29, 2011:

Cash	**$ 5**
Accounts receivable	**24,300**
Inventories	**39,003**
Other current assets	**773**
Property and equipment	**4,402**
Goodwill	**12,357**
Intangibles	**20,600**
Other assets	**202**
Accounts payable and accrued expenses	**(22,894)**
Noncontrolling interest	**(29,519)**
Total purchase price	**$ 49,229**

The fair value of the noncontrolling interest was determined by applying a pro-rata value of the total invested capital adjusted for a discount for lack of control that market participants would consider when estimating the fair value of the noncontrolling interest. As a result of our contribution of 14 locations to the joint venture, $7,708 representing 40% of the carrying value of the contributed locations was attributed to the noncontrolling interest and $7,061 representing 40% of the difference between the fair value and carrying value of the contributed locations, was recognized as an increase to paid-in capital.

On July 29, 2011, we acquired a 60% controlling interest in Carrier's HVAC/R distribution operations in Mexico for cash consideration of $9,000. Carrier's company-operated Mexico distribution network had revenues of approximately $75,000 in 2010 and operated from seven locations. Products sold include Carrier's complete product line of HVAC equipment and commercial refrigeration products and supplies servicing both the residential and applied commercial markets.

The unaudited pro forma financial information combining our results of operations with the operations of the new 28 locations in the Northeast U.S. and the seven locations in Mexico (collectively, "Carrier Enterprise II") as if the joint venture had been consummated on January 1, 2010 is as follows:

Years ended December 31,	2011	2010
Revenues	**$3,073,926**	$3,131,069
Net income	**138,818**	118,194
Less: net income attributable to noncontrolling interest	**48,179**	35,660
Net income attributable to Watsco, Inc.	**$ 90,639**	$ 82,534
Diluted earnings per share for Common and Class B common stock	**$ 2.75**	$ 2.54

This unaudited pro forma financial information is presented for informational purposes only. The unaudited pro forma financial information from the beginning of the periods presented until the acquisition date includes adjustments to record income taxes related to our portion of Carrier Enterprise II's income and amortization related to identified intangible assets with finite lives. The unaudited pro forma financial information does not include adjustments to add or remove certain corporate expenses of Carrier Enterprise II, which may not be incurred in future periods, or adjustments for depreciation or synergies that may be realized subsequent to the acquisition date. The unaudited pro forma financial information may not necessarily reflect our future results of operations or what the results of operations would have been had we acquired our 60% controlling interest in and operated Carrier Enterprise II as of the beginning of the periods presented.

Carrier Enterprise, LLC Joint Venture

In July 2009, we completed the formation of Carrier Enterprise I, which is a joint venture between us and Carrier. Carrier contributed to Carrier Enterprise I 95 locations in the U.S. Sunbelt and Puerto Rico and Carrier's export division located in Miami, Florida, and we contributed 15 locations that distributed Carrier products. We purchased a 60% controlling interest in the joint venture for a fair value of $181,474 with options to purchase up to an additional 20% interest from Carrier (10% beginning in July 2012 and an additional 10% in July 2014). Total consideration paid by us for our 60% controlling interest in Carrier Enterprise I was composed of our issuance to Carrier of 2,985,685 shares of Common stock and 94,784 shares of Class B common stock having a fair value of $151,056 and our contribution of 15 locations that sold Carrier-manufactured products valued at $23,217. The final purchase price was subject to $7,201 of working capital adjustments pursuant to the related purchase and contribution agreement.

Based on our valuation we recognized $131,341 in goodwill and intangibles. The fair value of the identified intangible assets was $49,100 and consisted of $32,400 in trade names and distribution rights and $16,700 in customer relationships. The tax basis of the acquired goodwill recognized is deductible for income tax purposes over 15 years.

The purchase price allocation is based upon a purchase price of $181,474 which represents the fair value of our 60% controlling interest in Carrier Enterprise I. The table below presents the allocation of the total consideration to tangible and intangible assets acquired, liabilities assumed and the noncontrolling interest from the acquisition of our 60% controlling interest in Carrier Enterprise I based on the respective fair values as of July 1, 2009:

Accounts receivable	$ 186,082
Inventories	125,796
Other current assets	4,253
Property and equipment	10,048
Goodwill	82,241
Intangibles	49,100
Other assets	1,725
Accounts payable and accrued expenses	(163,485)
Other liabilities	(5,403)
Noncontrolling interest	(108,883)
Total purchase price	$ 181,474

The fair value of the noncontrolling interest was determined by applying a pro-rata value of the total invested capital adjusted for a discount for lack of control that market participants would consider when estimating the fair value of the noncontrolling

interest. As a result of our contribution of 15 locations to the joint venture, $12,448 representing 40% of the carrying value of the contributed locations was attributed to the noncontrolling interest and $10,768 representing 40% of the difference between the fair value and carrying value of the contributed locations was recognized as an increase to paid-in capital.

In August 2009, a capital contribution in the amount of $80,000 was made to Carrier Enterprise I pursuant to the related purchase and contribution agreement. Our share of the contribution totaling $48,000 was made as an additional capital contribution to Carrier Enterprise I in cash. Carrier's share of the contribution totaling $32,000 consisted of inventory. In March 2011, Carrier Enterprise I returned the $80,000 capital contribution made in 2009 using cash on hand. Our share of the return of capital totaled $48,000 and Carrier's share totaled $32,000.

Revenues of $588,065 and net income attributable to Watsco, Inc. of $6,971 were contributed by the new Carrier Enterprise I locations during the year ended December 31, 2009. The unaudited pro forma financial information combining our results of operations with the operations of Carrier Enterprise I as if the joint venture had been consummated on January 1, 2009 is as follows:

Year ended December 31,	2009
Revenues	$2,562,319
Net income	59,874
Less: net income attributable to noncontrolling interest	13,332
Net income attributable to Watsco, Inc.	$ 46,542
Diluted earnings per share for Common and Class B common stock	$ 1.44

This unaudited pro forma financial information is presented for informational purposes only. The unaudited pro forma financial information from the beginning of the period presented until the acquisition date includes adjustments to record income taxes related to our portion of Carrier Enterprise I's income, bank fees paid to amend our $300,000 revolving credit agreement upon the consummation of the joint venture, bank fees paid by Carrier Enterprise I to enter into a secured three-year $75,000 revolving credit agreement and amortization related to identified intangible assets with finite lives. The unaudited pro forma financial information does not include adjustments to remove certain corporate expenses of Carrier Enterprise I, adjustments for depreciation or synergies (primarily related to improved gross profit and lower general and administrative expenses) that may be realized subsequent to the acquisition date. The unaudited pro forma financial information does not necessarily reflect our future results of operations or what the results of operations would have been had we owned and operated Carrier Enterprise I as of the beginning of the period presented.

Other Acquisitions

In April 2010, one of our wholly-owned subsidiaries acquired certain assets and assumed certain liabilities of a wholesale distributor of air conditioning and heating products operating from two locations in Tennessee for cash consideration of $2,406.

In August 2009, one of our wholly-owned subsidiaries acquired certain assets and assumed certain liabilities of a wholesale distributor of air conditioning and heating products operating from six locations in Utah for cash consideration of $4,057, net of cash acquired.

The results of operations of these acquired locations have been included in the consolidated financial statements from their respective dates of acquisition. The pro forma effect of the April 2010 and August 2009 acquisitions were not deemed significant to the consolidated financial statements.

Transaction costs

Approximately $1,200 of transaction costs is included in selling, general and administrative expenses in our consolidated statement of income for the year ended December 31, 2011 primarily associated with the closing and transition of Carrier Enterprise II. Approximately $4,800 of transaction costs is included in selling, general and administrative expenses in our consolidated statement of income for the year ended December 31, 2009 primarily associated with the closing and transition of Carrier Enterprise I.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2009	$303,257
Acquired goodwill	446
Balance at December 31, 2010	303,703
Acquired goodwill	15,737
Balance at December 31, 2011	**$ 319,440**

Intangible assets, net consist of:

December 31,	Estimated Useful Lives	2011	2010
Indefinite lived intangible assets:			
Trade names, trademarks and distribution rights		**$50,503**	$ 37,963
Finite lived intangible assets:			
Customer relationships	10-15 years	**29,530**	22,120
Trade name	10 years	**1,150**	—
Non-compete agreements	7 years	**369**	369
Less: accumulated amortization		**(6,186)**	(3,825)
Finite lived intangible assets, net		**24,863**	18,664
		$75,366	$56,627

Amortization expense related to finite lived intangible assets included in selling, general and administrative expenses amounted to $2,361, $1,939 and $1,191 for the years ended December 31, 2011, 2010 and 2009, respectively. The future amortization expense for each of the five succeeding years related to all finite lived intangible assets that are currently recorded in the consolidated balance sheets is estimated to be as follows at December 31, 2011:

2012	$ 2,506
2013	2,496
2014	2,472
2015	2,461
2016	2,461
Total	$12,396

10. SHAREHOLDERS' EQUITY

Common Stock

Common stock and Class B common stock share equally in earnings and are identical in most other respects except (i) Common stock is entitled to one vote on most matters and each share of Class B common stock is entitled to ten votes; (ii) shareholders of Common stock are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number) and Class B shareholders are entitled to elect the balance of the Board of Directors; (iii) cash dividends may be paid on Common stock without paying a cash dividend on Class B common stock and no cash dividend may be paid on Class B common stock unless at least an equal cash dividend is paid on Common stock and (iv) Class B common stock is convertible at any time into Common stock on a one-for-one basis at the option of the shareholder.

Preferred Stock

We are authorized to issue preferred stock with such designation, rights and preferences as may be determined from time to time by our Board of Directors. Accordingly, the Board of Directors is empowered, without shareholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights which could adversely affect the voting power or other rights of the holders of our Common stock and Class B common stock and, in certain instances, could adversely affect the market price of this stock. We had no preferred stock outstanding at December 31, 2011 and 2010.

Euronext Listing

In October 2010, we listed our Common stock on the Professional Segment of NYSE Euronext in Paris ("Euronext"). On September 24, 2010, the French *Autorité des Marchés Financiers* approved the prospectus and correspondingly granted a visa

number for admission of our Common stock to listing and trading on Euronext. Our shares began trading on Euronext on October 21, 2010 under the symbol "WSO" and are denominated in Euros on the Paris venue. The cross listing does not alter our share count, capital structure or current stock-listings and is intended to promote additional liquidity for investors as well as provide greater access to our shares in Euro-zone markets and currencies.

Stock Repurchase Plan

In September 1999, our Board of Directors authorized the repurchase, at management's discretion, of up to 7,500,000 shares of common stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders' equity. No shares were repurchased during 2011, 2010 or 2009. In aggregate, 6,322,650 shares of Common stock and 48,263 shares of Class B common stock have been repurchased at a cost of $114,425 since the inception of the program. The repurchase of up to the remaining 1,129,087 shares authorized for repurchase is subject to certain restrictions included in our revolving credit agreements.

11. FINANCIAL INSTRUMENTS

Recorded Financial Instruments

Recorded financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, the current portion of long-term obligations, borrowings under our revolving credit agreements and debt instruments included in other long-term obligations. At December 31, 2011 and 2010, the fair values of cash and cash equivalents, accounts receivable, accounts payable and the current portion of long-term obligations approximated their carrying values due to the short-term nature of these instruments.

The fair values of variable rate borrowings under our revolving credit agreements and debt instruments included in long-term obligations also approximate their carrying value based upon interest rates available for similar instruments with consistent terms and remaining maturities.

Derivative Financial Instrument

Periodically, we enter into interest rate swap agreements to reduce our exposure to interest rate risk from changing interest rates under our revolving credit agreements. Under the terms of the swap agreements, we agree to exchange, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to the notional principal amount. Any differences paid or received on our interest rate swap agreements are recognized as adjustments to interest expense over the life of each swap, thereby adjusting the effective interest rate on the underlying obligation. Financial instruments are not held or issued for trading purposes. In order to obtain hedge accounting treatment, any derivatives used for hedging purposes must be designated as, and effective as, a hedge of an identified risk exposure at the inception of the contract. Changes in the fair value of the derivative contract must be highly correlated with changes in the fair value of the underlying hedged item at inception of the hedge and over the life of the hedge contract. Accordingly, we record all derivative instruments as either assets or liabilities in the consolidated balance sheets at their respective fair values. We record the change in the fair value of a derivative instrument designated as a cash flow hedge in other comprehensive income to the extent the derivative is effective and recognize the change in the consolidated statements of income when the hedged item affects earnings.

We were party to an interest rate swap agreement with a notional amount of $10,000 that matured in October 2011 and was designated as a cash flow hedge. This swap effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. During 2011, 2010 and 2009, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

We were party to an interest rate swap agreement with a notional amount of $10,000 that matured in October 2009 and was designated as a cash flow hedge. This swap effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.04%. During 2009, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

The negative fair value of the derivative financial instrument was $399 at December 31, 2010, and is included, net of accrued interest, in accrued expenses and other current liabilities in the consolidated balance sheet. See Note 12. At December 31, 2010, $238, net of deferred tax benefits of $146, was included in accumulated OCL associated with the cash flow hedge.

The net change in OCL during 2011, 2010 and 2009, reflected the reclassification of $244, net of income tax benefit of $155, $301, net of income tax benefit of $185 and $527, net of income tax benefit of $320, respectively, of unrealized losses from accumulated OCL to current period earnings (recorded in interest expense, net in the consolidated statements of income).

Off-Balance Sheet Financial Instruments

At December 31, 2011 and 2010, we were contingently liable under standby letters of credit aggregating $3,006 and $3,399, respectively, which are primarily used as collateral to cover any contingency related to additional risk assessments pertaining

to our self-insurance programs. Additionally, at December 31, 2011, we were contingently liable under various standby letters of credit and performance bonds aggregating approximately $5,400 that are used as collateral to cover any contingencies related to our nonperformance to certain customers. We do not expect any material losses to result from the issuance of the standby letters of credit or performance bonds because our obligations under the self-insurance programs and to certain customers will be met in the ordinary course of business. Accordingly, the estimated fair value of these instruments is zero.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of cash investments and accounts receivable. Temporary cash investments are placed with high credit quality financial institutions and we limit the amount of credit exposure to any one financial institution or investment. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the customer base and their dispersion across many different geographical regions.

12. FAIR VALUE MEASUREMENTS

The following tables present our assets and liabilities that are measured at fair value on a recurring basis and the levels of inputs used to measure fair value:

Description	Fair Value at December 31, 2011	Fair Value Measurements at December 31, 2011 Using Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	$ 163	$ 163	—	—

Description	Fair Value at December 31, 2010	Fair Value Measurements at December 31, 2010 Using Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	$ 157	$157	—	—
Liabilities:				
Derivative financial instrument	$ 399	—	$399	—

The following is a description of the valuation techniques used for these assets and liabilities, as well as the level of input used to measure fair value:

Available-for-sale securities – the investments are exchange-traded equity securities. Fair values for these investments are based on quoted prices in active markets and are therefore classified within Level 1 of the fair value hierarchy. The fair value of available-for-sale securities is included in other assets in our consolidated balance sheets.

Derivative financial instrument – the derivative is a pay-variable, receive fixed interest rate swap based on 30-day LIBOR. Fair value is based on model-derived valuations using the respective LIBOR rate, which is observed at quoted intervals for the full term of the swap and incorporates adjustments to appropriately reflect our nonperformance risk and the counterparty's nonperformance risk. Therefore, the derivative is classified within Level 2 of the fair value hierarchy. The fair value of the derivative financial instrument is included, net of accrued interest, in accrued expenses and other current liabilities in our consolidated balance sheet. See Note 11, "Derivative Financial Instrument."

13. COMMITMENTS AND CONTINGENCIES

Litigation, Claims and Assessments

We are involved in litigation incidental to the operation of our business. We vigorously defend all matters in which we or our subsidiaries are named defendants and, for insurable losses, maintain significant levels of insurance to protect against adverse judgments, claims or assessments that may affect us. Although the adequacy of existing insurance coverage and the outcome of any legal proceedings cannot be predicted with certainty, based on the current information available, we do not believe the ultimate liability associated with any known claims or litigation will have a material adverse impact to our financial condition or results of operations.

Self-Insurance

Self-insurance reserves are maintained relative to company-wide casualty insurance and health benefit programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the self-insurance liabilities and related reserves, management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party

actuaries. Management reviews its assumptions with its independent third-party actuaries to evaluate whether the self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occur and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. Reserves in the amounts of $4,631 and $7,295 at December 31, 2011 and 2010, respectively, were established related to such insurance programs and are included in accrued expenses and other current liabilities in our consolidated balance sheets.

Variable Interest Entities

As of December 31, 2011, in conjunction with our casualty insurance programs, limited equity interests are held in a captive insurance entity. The programs permit us to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit risk of loss in any particular year. The entities meet the definition of VIEs; however, we do not meet the requirements to include these entities in the consolidated financial statements. The maximum exposure to loss related to our involvement with these entities is limited to approximately $6,100. See “Self-Insurance” above for further information on commitments associated with the insurance programs and Note 11, “Off-Balance Sheet Financial Instruments,” for further information on standby letters of credit. As of December 31, 2011, there are no other entities that met the definition of a VIE.

Operating Leases

We are obligated under various non-cancelable operating lease agreements for real property, equipment, vehicles and a corporate aircraft used in our operations with varying terms through 2021. We are committed to pay a portion of the actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below. Some of these arrangements have free or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight-line basis over the lease term.

At December 31, 2011, future minimum payments under non-cancelable operating leases over each of the next five years and thereafter were as follows:

2012	$ 58,546
2013	48,229
2014	39,078
2015	31,098
2016	21,763
Thereafter	17,816
Total minimum payments	$216,530

Rental expense for the years ended December 31, 2011, 2010 and 2009 was $70,933, $61,835 and $55,502, respectively.

14. RELATED PARTY TRANSACTIONS

Purchases from Carrier and its affiliates comprised 54%, 52% and 41% of all purchases made during 2011, 2010 and 2009, respectively. At December 31, 2011 and 2010, approximately $41,000 and $93,000, respectively, was payable to Carrier and its affiliates, net of receivables. Our joint ventures with Carrier also sell HVAC products to Carrier and its affiliates. Revenues in our consolidated statements of income for 2011, 2010 and 2009 include $23,710, $22,142 and $11,879, respectively, of sales to Carrier and its affiliates. We believe these transactions are conducted at arm’s-length in the ordinary course of business.

Carrier Enterprise II entered into Transactional Services Agreements (“TSAs”) with Carrier, pursuant to which Carrier performs certain business processes on their behalf, including processes involving the use of certain information technologies. The services provided by Carrier pursuant to the TSAs terminate on various dates through April 30, 2012 but may be advanced or extended as agreed upon by the parties. The fees related to these TSAs were $1,139 for the year ended December 31,2011 and are included in selling, general and administrative expenses in our consolidated statements of income. At December 31, 2011, $941 related to these TSAs was payable to Carrier and was included in accrued expenses and other current liabilities in our consolidated balance sheet.

The services previously provided by Carrier pursuant to TSAs with Carrier Enterprise I terminated on various dates throughout 2010. The fees related to these TSAs were $2,177 and $10,808, and are included in selling, general and administrative expenses in our consolidated statements of income for 2010 and 2009, respectively. No amount related to these TSAs was payable to Carrier at December 31, 2010.

A member of our Board of Directors is the Executive Chairman of Greenberg Traurig, P.A., which serves as our principal outside counsel and receives customary fees for legal services. During 2011, 2010 and 2009, this firm was paid $59, $63 and $49, respectively, for services performed.

15. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

Years Ended December 31,	2011	2010	2009
Interest paid	**$ 1,854**	$ 1,348	$ 1,436
Income taxes net of refunds	**$45,137**	$37,361	$ 14,018
Net assets of locations contributed to Carrier Enterprise I and II	**$14,769**	—	$ 23,217
Non-cash capital contribution of inventory by noncontrolling interest	**—**	—	$ 32,000
Common and Class B common stock issued for Carrier Enterprise I	**—**	—	$151,056

WATSCO, INC. AND SUBSIDIARIES
SELECTED QUARTERLY FINANCIAL DATA
(UNAUDITED)

(In thousands, except per share data)	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Year Ended December 31, 2011					
Revenues (1)	$ 534,339	$ 883,548	$ 914,039	$ 645,833	$2,977,759
Gross profit	134,986	213,191	219,407	160,710	728,294
Net income attributable to Watsco, Inc.	$ 7,500	$ 36,023	$ 33,547	$ 13,380	$ 90,450
Earnings per share for Common and Class B common stock (2):					
Basic	$ 0.21	$ 1.09	$ 1.02	$ 0.39	$ 2.75
Diluted	$ 0.21	$ 1.09	$ 1.02	$ 0.39	$ 2.74
Year Ended December 31, 2010					
Revenues (1)	$509,755	$864,805	$ 812,787	$657,248	$ 2,844,595
Gross profit	122,604	201,069	195,541	154,027	673,241
Net income attributable to Watsco, Inc.	$ 3,833	$ 35,045	$ 31,437	$ 10,445	$ 80,760
Earnings per share for Common and Class B common stock (2):					
Basic	$ 0.10	$ 1.08	$ 0.97	$ 0.31	$ 2.49
Diluted	$ 0.10	$ 1.08	$ 0.97	$ 0.31	$ 2.49

(1) *Sales of residential central air conditioners, heating equipment and parts and supplies are seasonal. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters and demand for heating equipment is usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets is fairly consistent during the year, except for dependence on housing completions and related weather and economic conditions.*

(2) *Quarterly and year-to-date earnings per share are calculated on an individual basis; therefore, the sum of earnings per share amounts for the quarters may not equal earnings per share amounts for the year.*

WATSCO, INC. AND SUBSIDIARIES
INFORMATION ON COMMON STOCK

Our Common stock is traded on the New York Stock Exchange and the Professional Segment of NYSE Euronext in Paris under the ticker symbol WSO, and our Class B common stock is traded on the NYSE Amex under the ticker symbol WSOB. The following table indicates the high and low prices of our Common stock and Class B common stock, as reported by the New York Stock Exchange and NYSE Amex, respectively, and dividends paid per share for each quarter during the years ended December 31, 2011 and 2010. At February 24, 2012, excluding shareholders with stock in street name, there were 266 Common stock shareholders of record and 103 Class B common stock shareholders of record.

	Common		Class B Common		Cash Dividend	
	High	Low	High	Low	Common	Class B
Year Ended December 31, 2011:						
First quarter	$ 69.71	$59.59	$ 69.00	$59.65	$ 0.52	$0.52
Second quarter	72.76	62.07	72.65	62.96	0.57	0.57
Third quarter	69.26	51.10	68.10	52.00	0.57	0.57
Fourth quarter	66.60	51.31	66.58	50.84	0.57	0.57
Year Ended December 31, 2010:						
First quarter	$59.99	$ 47.86	$ 59.00	$ 47.70	$ 0.48	$ 0.48
Second quarter	62.53	53.44	62.64	53.99	0.52	0.52
Third quarter	60.40	51.35	60.40	51.39	0.52	0.52
Fourth quarter	64.55	54.82	65.26	55.00	0.52	0.52

EXHIBIT 21

SUBSIDIARIES OF THE REGISTRANT

The following table sets forth, at February 24, 2012, the Registrant's significant operating subsidiaries and other associated companies and their respective incorporation jurisdictions. The Registrant owns 100% of the voting securities of each of the subsidiaries listed below unless noted otherwise. There are no subsidiaries not listed in the table, which would, in the aggregate, be considered significant.

Active Subsidiaries	State of Incorporation
AC Doctor LLC	Delaware
Air Systems Distributors LLC	Delaware
Atlantic Service & Supply LLC	Delaware
Baker Distributing Company LLC	Delaware
Carrier Enterprise, LLC*	Delaware
Carrier Enterprise Northeast, LLC*	Delaware
East Coast Metal Distributors LLC	Delaware
Gemaire Distributors LLC	Delaware
Heating & Cooling Supply LLC	California
Tradewinds Distributing Company LLC	Delaware
Watsco Holdings, Inc.	Delaware
Watsco Holdings II, Inc.	Delaware
Watsco Holdings III, LLC	Delaware

* 60% owned

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Watsco, Inc.:

We consent to the incorporation by reference in the registration statements listed below of Watsco, Inc. of our reports dated February 29, 2012, with respect to the consolidated balance sheets of Watsco, Inc. and its subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011, and the effectiveness of internal control over financial reporting as of December 31, 2011, which reports appear in the December 31, 2011 annual report on Form 10-K of Watsco, Inc.

- Form S-3 (Registration No. 333-163678)
- Form S-8 (Registration Nos. 333-159776, 333-149467, 333-126824, 333-86006, 333-39380, 333-82011, 333-80341, 333-10363, 33-51934, and 33-72798)

/s/ KPMG LLP

February 29, 2012
Miami, Florida
Certified Public Accountants

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Albert H. Nahmad, certify that:

1. I have reviewed this Annual Report on Form 10-K of Watsco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2012

/s/ Albert H. Nahmad

Albert H. Nahmad
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Barry S. Logan, certify that:

1. I have reviewed this Annual Report on Form 10-K of Watsco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2012

/s/ Barry S. Logan

Barry S. Logan
Senior Vice President

EXHIBIT 31.3

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ana M. Menendez, certify that:

1. I have reviewed this Annual Report on Form 10-K of Watsco, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 29, 2012

/s/ Ana M. Menendez

Ana M. Menendez
Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Watsco, Inc. ("Watsco") on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Albert H. Nahmad, as Chief Executive Officer of Watsco, Barry S. Logan, as Senior Vice President of Watsco and Ana M. Menendez, as Chief Financial Officer of Watsco, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Watsco.

/s/ Albert H. Nahmad
Albert H. Nahmad
Chief Executive Officer
February 29, 2012

/s/ Barry S. Logan
Barry S. Logan
Senior Vice President
February 29, 2012

/s/ Ana M. Menendez
Ana M. Menendez
Chief Financial Officer
February 29, 2012

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Watsco and will be retained by Watsco and furnished to the Securities and Exchange Commission or its staff upon request.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by Watsco for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.