
**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, 2021

or

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

For the Transition Period from _____ to _____

Commission File Number 1-5581



WATSCO, INC.

(Exact name of registrant as specified in its charter)

FLORIDA
(State or other jurisdiction of
incorporation or organization)

59-0778222
(I.R.S. Employer
Identification No.)

2665 South Bayshore Drive, Suite 901
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	Trading Symbol(s)	Name of each exchange on which registered
Common stock, \$0.50 par value	WSO	New York Stock Exchange
Class B common stock, \$0.50 par value	WSOB	New York Stock Exchange

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

Auditor Firm Id: 185 Auditor Name: KPMG LLP Auditor Location: Miami, FL

The aggregate market value of the registrant's voting common equity held by non-affiliates of the registrant as of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$9,652 million, based on the closing sale price of the registrant's common stock on that date. For purposes of determining this number, all named executive officers and directors of the registrant as of June 30, 2021 were considered affiliates of the registrant. This number is provided only for the purposes of this Annual Report on Form 10-K and does not represent an admission by either the registrant or any such person as to the affiliate status of such person.

The registrant's common stock outstanding as of February 22, 2022 comprised (i) 33,068,513 shares of Common stock, excluding 4,823,988 treasury shares, and (ii) 5,805,732 shares of Class B common stock, excluding 48,263 treasury shares.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Part II is incorporated by reference from the registrant's 2021 Annual Report, attached hereto as Exhibit 13. The information required by Part III (Items 10, 11, 12, 13, and 14) is incorporated herein by reference from the registrant's definitive proxy statement for the 2022 annual meeting of shareholders (to be filed pursuant to Regulation 14A).

WATSCO, INC. AND SUBSIDIARIES

Form 10-K
For the Fiscal Year Ended December 31, 2021

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PART I

Forward-Looking Statements

This Annual Report on 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. Statements which are not historical in nature, including the words “anticipate,” “estimate,” “could,” “should,” “may,” “plan,” “seek,” “expect,” “believe,” “intend,” “target,” “will,” “project,” “focused,” “outlook,” “goal,” “designed,” and variations of these words and negatives thereof and similar expressions are intended to identify forward-looking statements, including statements regarding, among others, (i) economic conditions, (ii) business and acquisition strategies, (iii) potential acquisitions and/or joint ventures and investments in unconsolidated entities, (iv) financing plans, and (v) industry, demographic and other trends affecting our financial condition or results of operations. These forward-looking statements are based on management’s current expectations, are not guarantees of future performance and are subject to a number of risks, uncertainties, and changes in circumstances, certain of which are beyond our 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, both in the United States and in the international markets we serve;
- competitive factors within the HVAC/R industry;
- effects of supplier concentration;
- fluctuations in certain commodity costs;
- consumer spending;
- consumer debt levels;
- the continued impact of the COVID-19 pandemic;
- new housing starts and completions;
- capital spending in the commercial construction market;
- access to liquidity needed for operations;
- seasonal nature of product sales;
- weather patterns and conditions;
- insurance coverage risks;
- federal, state, and local regulations impacting our industry and products;
- prevailing interest rates;
- foreign currency exchange rate fluctuations;
- international risk;
- cybersecurity risk; and
- the continued viability of our business strategy.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. For additional information regarding important factors that may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, please see the discussion included in Item 1A “Risk Factors” of this Annual Report on Form 10-K, as well as the other documents and reports that we file with the SEC. 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 as required by applicable law. We qualify any and all of our forward-looking statements by these cautionary factors.

ITEM 1. BUSINESS

General

Watsco, Inc. and its subsidiaries (collectively, “Watsco,” or “we,” “us,” or “our”) was incorporated in Florida 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 in North America. At December 31, 2021, we operated from 671 locations in 42 U.S. States, Canada, Mexico and Puerto Rico with additional market coverage on an export basis to portions of Latin America and

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the Caribbean, through which we serve more than 120,000 active 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 \$6.3 billion in 2021, resulting from our strategic acquisition of companies with established market positions and subsequent building of revenues and profit through a combination of additional locations, introduction of new products, 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. Our website address is included in this report only as an inactive textual reference. Information contained on, or available through, our website is not incorporated by reference in, or made a part of, this report.

Air Conditioning, Heating and Refrigeration Industry

The HVAC/R distribution industry is highly fragmented with approximately 6,700 distribution companies. The industry in the United States and Canada 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. The advent of HVAC/R products in Latin America and the Caribbean is also well-established but has emerged in more recent years as those economies have grown and products have become more affordable and have matured from luxury to necessity.

Based on data published in the December 2021 IBIS World Industry Report for Heating and Air Conditioning Contractors in the U.S. and other available data, we estimate that the annual market on an installed basis for residential central air conditioning, heating, and refrigeration equipment, and related parts and supplies is approximately \$120.0 billion. Air conditioning and heating equipment is manufactured primarily by seven major companies that together account for approximately 90% of all units shipped in the United States each year. These companies are: Carrier Global Corporation (“Carrier”); Goodman Manufacturing Company, L.P. (“Goodman”), a subsidiary of Daikin Industries, Ltd.; Rheem Manufacturing Company (“Rheem”); Trane Technologies plc (“Trane”); York International Corporation, a subsidiary of Johnson Controls International plc; Lennox International Inc. (“Lennox”); and Nortek Global HVAC, LLC, a subsidiary of Nortek, Inc. These manufacturers distribute their products through a combination of factory-owned locations and independent distributors who, in turn, supply the equipment and related parts and supplies to contractors and dealers that sell to and install the products for consumers, businesses, and other end-users.

Air conditioning and heating equipment is sold to the replacement and new construction markets for both residential and commercial applications. The residential replacement market has increased in size and 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 to address both regulatory mandates as well as consumer optionality, 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 ranges from approximately 8 to 20 years. According to data published by the Energy Information Administration in 2018 there are approximately 91 million central air conditioning and heating systems installed in the United States that have been in service for more than 10 years. Many installed units are currently reaching the end of their useful lives, which we believe long-term provides a growing and stable replacement market.

Additionally, we sell a variety of non-equipment products including parts, ductwork, air movement products, insulation, tools, installation supplies, thermostats, and air quality products. We distribute products manufactured by Flexible Technologies, Inc. (“Flexible Technologies”), Resideo Technologies, Inc. (“Resideo”), Southwark Metal Mfg. Co. (“Southwark”), Johns Manville (“Johns Manville”) and Owens Corning Insulating Systems, LLC (“Owens Corning”), among others.

We also sell products to the commercial 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 Corporation, LLC, a subsidiary of Emerson Electric Co. (“Emerson”), The Chemours Company (“Chemours”), Mueller Industries, Inc. (“Mueller”), and Welbilt, Inc. (“Welbilt”), among others.

Culture and Business Strategy

Watsco began its HVAC/R distribution strategy in 1989 and has grown by using a “buy and build” philosophy, resulting in substantial long-term growth in revenues and profits. The “buy” component of the strategy has focused on acquiring or investing in market leaders to either expand into new geographic areas or gain additional market share in existing markets. We have employed a disciplined and conservative approach, which seeks opportunities that fit well-defined financial and strategic criteria. The “build” component of the strategy has focused on encouraging growth at acquired companies, by adding products and locations to better serve customers, investing in scalable technologies, and exchanging ideas and

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business concepts amongst leadership teams. 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. We have also developed a culture whereby leaders, managers and employees are provided the opportunity to own shares of Watsco through a variety of stock-based equity plans. We believe that this culture instills a performance-driven, long-term focus on the part of our employees and aligns their interests with the interests of other Watsco shareholders.

Culture of Innovation & Technology Strategy

In recent years, we have established a strong culture of innovation, whereby people, processes and technology have rapidly evolved to modernize and digitize our business. With this digital evolution in mind, our efforts have addressed how customers are served, how internal processes and practices can be improved, and how data and analytics can be created and used to enhance long-term performance. Investments include the addition of approximately 300 technology employees along with investments in our locations and infrastructure to enable these technologies.

To that end, several scalable technology platforms have been launched with the largest focus on customer-obsessed technologies, which are improving and transforming the customer experience at all of our locations. Specific initiatives include: (i) mobile applications for iOS and Android devices to help customers operate more efficiently and interact with our locations more easily; (ii) e-commerce between our customers and our subsidiaries; (iii) supply chain optimization; (iv) building and maintaining the largest source of digitized HVAC/R product information; and (v) the development of business intelligence systems and related data sets, which provide enhanced management tools. In addition, through our subsidiary Watsco Ventures, LLC (“Watsco Ventures”), we have developed (internally and through external collaboration) a variety of early-stage technologies with the goal of helping contractor customers grow and become more profitable, and otherwise compliment the initiatives set forth above.

Strategy in Existing Markets

Our strategy for growth in existing markets focuses on customer service, product expansion, and the implementation of technology 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 at an array of price-points, 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, (v) collaborating with customers to advertise and market their business and services in local markets, and (vi) 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 distribution networks, which typically do not maintain inventories of parts and supplies that are as diversified as ours and which have fewer warehouse locations than we do, making 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, including new homes and commercial construction. We believe our reputation for reliable, high-quality service, and relationships with contractors, who may serve both the replacement and new construction markets, allows us to compete effectively in these markets.

Product Line Expansion

We actively seek new or expanded territories of distribution from our key equipment suppliers. We continually evaluate new parts and supply products to support equipment sales and further enhance service to our customers. This initiative includes increasing our 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.

Acquisition Strategy

We focus on acquiring and investing in businesses that either complement our current presence in existing markets or establish a presence in new geographic markets. Since 1989, we have acquired 66 HVAC/R distribution businesses, some of which currently operate as primary operating subsidiaries. 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,

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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 in our acquired businesses. We continue to pursue additional strategic acquisitions, investments and joint ventures to allow further penetration in existing markets and expansion into new geographic markets.

Operating Philosophy

We encourage our local leadership to operate in a manner that builds upon the long-term relationships they have established with their suppliers and customers. Typically, we maintain the identity of businesses by retaining their historical trade names, management teams and sales organizations, and continuity of 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 former owners of these companies.

We maintain a specialized staff at our corporate headquarters that provides functional support for our subsidiaries' growth strategies in their respective markets. Such functional support staff includes specialists in finance, accounting, product procurement, information technology, 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.

Human Capital Management

Employee Population

As the largest distributor of HVAC/R equipment and related parts and supplies in North America, we have a wide variety of employees. Given the breadth of our employee base, we tailor our human capital management policies with a view to specific employee populations.

As of December 31, 2021, we employed approximately 6,850 full-time and 50 part-time employees, or approximately 6,900 total employees, substantially all of whom were non-union employees. Of these employees, approximately 9% were located in Canada and Mexico. Additionally, we use independent contractors and temporary personnel in the normal course of business to supplement our workforce.

Diversity and Inclusion

We value and foster the diversity and inclusion of the people with whom we work. Our commitment includes providing equal access to, and participation in, employment and advancement opportunities without regard to race, color, religion, national origin, age, disability, veteran or military status, pregnancy status, sex, gender identity, sexual orientation, or marital status. Diverse teams facilitate contributions from people of different backgrounds and varied points of view. Furthermore, we believe that well managed diverse teams make better decisions faster and outperform less diverse teams. Additionally, we believe that employees who feel valued, understood, and inspired benefit the Company as a whole. Inclusive leadership leads to innovative solutions and an inclusive environment is a critical foundation for us, as high-performing, engaged teams join together to help us implement our strategies.

Compensation and Benefits

We focus on attracting and retaining employees by providing compensation and benefits programs that are competitive within our industry, taking into account each job position's location and responsibilities. In addition to salaries, commission programs, cash incentives, and stock-based equity plans, we also provide a 401(k) retirement plan with a company match, an employee stock purchase plan in which most of our employees may purchase our stock at a discount, healthcare and insurance benefits, health savings accounts, paid time off, and various services and tools to support our employees' health and wellness.

Pay-for-Performance and Ownership Culture

We maintain a culture that rewards performance of key leaders through stock-based equity plans, which include the granting of stock options and non-vested restricted stock based on individual merit and measures of performance. Approximately 200 employees received such equity awards in 2021. Our equity compensation plans are designed to promote long-term performance, as well as to create long-term employee retention, continuity of leadership, and an ownership culture whereby management and employees think and act as owners of the Company. We believe that our restricted stock program is unique because an employee's restricted share grants generally vest entirely and only at the end of his or her career (age 62 or later) and, prior to retirement, these grants remain subject to significant risk of forfeiture.

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Talent Development

Our culture celebrates talent sharing, career development, and agility across the Company. We provide a wide variety of opportunities for professional growth and talent development for all employees, including online trainings, on-the-job experience, and education tuition assistance.

Health and Safety

We continuously strive to improve all aspects of our work practices. We actively support a culture of safety and wellness for the benefit of our employees and their families along with our customers. Providing a safe and healthy work environment is a business priority and is core to our values. Health and safety are an essential part of a broader workforce strategy that reduces the risk of harm to employees and helps them remain healthy, engaged and productive.

To build and sustain a culture based on these principles, our commitment to safety and wellness is incorporated into the incentive structure of our key operational leaders. For wellness, we measure employee engagement in completing annual physicals and health assessments to help ensure that our philosophical values are put into action. For safety, we measure and carefully evaluate incidents related to workers compensation, vehicle accidents and injuries to third-parties, and we continuously seek to improve safety measures intended to reduce the number of such incidents.

In response to the COVID-19 pandemic, we took steps to safeguard the health of our employees. This included having certain of our employees work from home, while implementing additional safety measures for employees continuing essential on-site work, such as creating more space between work areas, providing personal protective equipment and cleaning supplies, establishing mitigation policies in the event of cases of illness, and instituting contactless sales and servicing capabilities at many of our locations.

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 we 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 ducted and ductless air conditioners ranging from 1 to 5 tons, gas, electric, and oil furnaces ranging from 50,000 to 150,000 BTUs, commercial air conditioning and heating equipment 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, (iii) supplies, including thermostats, insulation material, refrigerants, ductwork, grills, registers, sheet metal, tools, copper tubing, concrete pads, tape, adhesives, and other ancillary supplies and (iv) plumbing and bathroom remodeling supplies in a limited number of stores.

Sales of HVAC equipment, which we currently source from approximately 20 vendors, accounted for 69% of our revenues for both the years ended December 31, 2021 and 2020. Sales of other HVAC products, which we currently source from approximately 1,200 vendors, comprised 28% of our revenues for both the years ended December 31, 2021 and 2020. Sales of commercial refrigeration products, which we currently source from approximately 140 vendors, accounted for 3% of our revenues for both the years ended December 31, 2021 and 2020.

Distribution and Sales

At December 31, 2021, we operated from 671 locations, a vast majority of which are located in regions that we believe have demographic trends favorable to our business. We maintain large inventories at each of our warehouse locations and either deliver products to customers using our trucks or third-party logistics providers, or we make products available for pick-up at the location nearest to the particular customer. We have approximately 1,100 salespeople, averaging 13 years of experience in the HVAC/R distribution industry.

<u>The markets we serve are as follows:</u>	<u>% of Revenues for the Year Ended December 31, 2021</u>	<u>Number of Locations as of December 31, 2021</u>
United States	90%	611
Canada	6%	36
Latin America and the Caribbean	4%	24
Total	100%	671

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The largest market we serve is the United States, in which the most significant markets for HVAC/R products are in the Sun Belt states. Accordingly, the majority of our distribution locations are in the Sun Belt, with the highest concentration in Florida and Texas. These markets have been a strategic focus of ours given their size, the reliance by homeowners and businesses on HVAC/R products to maintain a comfortable indoor environment, and the population growth in these areas over the last 40 years, which has led to a substantial installed base requiring replacement, a shorter useful life for equipment given the significant hours of operation, and the focus by electrical utilities on consumer incentives designed to promote replacement of HVAC/R equipment in an effort to improve energy efficiency.

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Markets

The table below identifies the number of our stores by location as of December 31, 2021:

Florida	103
Texas	88
North Carolina	48
California	37
Louisiana	35
Georgia	33
South Carolina	31
Virginia	26
Tennessee	24
Pennsylvania	21
Illinois	17
New York	16
New Jersey	15
Alabama	10
Massachusetts	10
Arizona	9
Mississippi	9
Missouri	9
Connecticut	8
Kansas	7
Maryland	7
Indiana	5
Oklahoma	5
Utah	5
Arkansas	4
Minnesota	3
West Virginia	3
Colorado	2
Iowa	2
Kentucky	2
Maine	2
Nebraska	2
Nevada	2
South Dakota	2
Wisconsin	2
Delaware	1
Michigan	1
New Hampshire	1
New Mexico	1
North Dakota	1
Rhode Island	1
Vermont	1
United States	611
Canada	36
Mexico	12
Puerto Rico	12
Total	671

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Joint Ventures with Carrier Global Corporation

In 2009, we formed a joint venture with Carrier Global Corporation (“Carrier”), which we refer to as Carrier Enterprise I, in which Carrier contributed company-owned locations in the Sun Belt states and Puerto Rico, and its export division in Miami, Florida, and we contributed certain locations that distributed Carrier products. We have an 80% controlling interest in Carrier Enterprise I, and Carrier has a 20% non-controlling interest. The export division, Carrier InterAmerica Corporation, redomesticated from the U.S. Virgin Islands to Delaware effective December 31, 2019, following which Carrier InterAmerica Corporation became a separate operating entity in which we have an 80% controlling interest and Carrier has a 20% non-controlling interest. On August 1, 2019, Carrier Enterprise I acquired substantially all of the HVAC assets and assumed certain of the liabilities of Peirce-Phelps, Inc. (“PPI”), an HVAC distributor operating from 19 locations in Pennsylvania, New Jersey, and Delaware.

In 2011, we formed a second joint venture with Carrier, which we refer to as Carrier Enterprise II, in which Carrier contributed company-owned locations in the Northeast U.S., and we contributed certain locations operating as Homans Associates LLC (“Homans”), a Watsco subsidiary, in the Northeast U.S. Subsequently, Carrier Enterprise II purchased Carrier’s distribution operations in Mexico. We have an 80% controlling interest in Carrier Enterprise II, and Carrier has a 20% non-controlling interest. Effective May 31, 2019, we repurchased the 20% ownership interest in Homans from Carrier Enterprise II, following which we own 100% of Homans. Homans previously operated as a division of Carrier Enterprise II and subsequent to the purchase operates as a wholly owned subsidiary of the Company.

In 2012, we formed a third joint venture with Carrier, which we refer to as Carrier Enterprise III. Carrier contributed 35 of its company-owned locations in Canada to Carrier Enterprise III. We have a 60% controlling interest in Carrier Enterprise III, and Carrier has a 40% non-controlling interest.

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, an HVAC distributor operating from 32 locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new, stand-alone joint venture with Carrier, TEC Distribution LLC (“TEC”), that operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest.

Combined, the joint ventures with Carrier represented 56% of our revenues for the year ended December 31, 2021. See *Supplier Concentration* in “Business Risk Factors” in Item 1A.

The business and affairs of the joint ventures are controlled, directed, and managed exclusively by Carrier Enterprise I’s, Carrier Enterprise II’s, Carrier Enterprise III’s, and TEC’s respective boards of directors (the “Boards”) pursuant to related operating agreements. The Boards have full, complete and exclusive authority, power, and discretion to manage and control the business, property, and affairs of their respective joint ventures, and to make all decisions regarding those matters and to perform activities customary or incident to the management of such joint ventures, including approval of distributions to us and Carrier. Each Board is composed of five directors, of whom three directors represent our controlling interest and two directors represent Carrier’s non-controlling 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 120,000 active 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 2021, 2020 or 2019 represented more than 2% 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 mobile applications and 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 based on an experienced sales organization, strong service support, maintenance of well-stocked inventories, density of warehouse locations, high quality reputation, broad product lines, and the ability to foresee customer demand for new products.

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Key Supplier Relationships

Given our leadership position, Watsco represents a strategic business relationship to many of the leading manufacturers in our industry. Significant relationships with HVAC/R equipment manufacturers include Carrier, Rheem, Goodman, Welbilt, Mitsubishi Electric Corporation, Gree Electric Appliances, Inc., Trane, Lennox, and Midea Group. In addition, we have substantial relationships with manufacturers of non-equipment HVAC/R products, including Chemours, Emerson, Flexible Technologies, Resideo, Southwark, Johns Manville, Mueller, and Owens Corning.

We believe the diversity of products that we sell, along with the manufacturers' current product offerings, quality, marketability, and brand-name recognition, allow us to operate favorably relative to our competitors. To maintain brand-name recognition, HVAC/R equipment manufacturers 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 residential air conditioning equipment is approximately 85%-90% of industry unit sales in the United States, and we expect this percentage to increase as units installed in the past 20 years wear out or otherwise become practical to replace sooner with newer, more energy-efficient models.

The Company's top ten suppliers accounted for 83% of our purchases, including 61% from Carrier, and 10% from Rheem. Given the significant concentration of our suppliers, particularly with Carrier and Rheem, any significant interruption with these suppliers, including limitations on the ability of our suppliers to manufacture, or procure from manufacturers, the products we sell, or to meet delivery requirements and commitments, in each case related to the COVID-19 pandemic, could temporarily disrupt the operations of certain of our subsidiaries, impact current inventory levels, and could adversely affect our financial results. If any restrictions or significant increase in tariffs under existing trade agreements are imposed on products that our top ten suppliers import or assemble outside of the United States, particularly from Mexico and China, we could be required to raise our prices, which may result in the loss of customers and harm to our business. Future financial results are also materially dependent upon the continued market acceptance of these manufacturers' respective products and their ability to continue to manufacture products that comply with laws relating to environmental and efficiency standards. However, the Company believes that alternative or substitute products would be readily available in the event of disruption of current supplier relationships given the Company's prominence in the marketplace, including the number of locations, sales personnel, support structure, marketing and sales expertise, financial position, and established market share. See "Business Risk Factors" in Item 1A of this Annual Report on Form 10-K for further discussion.

Distribution Agreements

We maintain trade name and distribution agreements with Carrier, Rheem, and Mitsubishi that provide us distribution rights on an exclusive basis in specified territories and are not subject to a stated term or expiration date. We also maintain distribution agreements with various other suppliers, either on an exclusive or non-exclusive basis, for various terms ranging from one to ten years. Certain distribution agreements for particular branded products contain provisions that restrict or limit the sale of competitive products in the locations that sell such branded products. Other than where such location-level restrictions apply, we may distribute the lines of other manufacturers' air conditioning or heating equipment in other locations in the same territories.

See *Supplier Concentration* in "Business Risk Factors" in Item 1A of this Annual Report on Form 10-K.

Seasonality

Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal. Furthermore, profitability can be impacted favorably or unfavorably based on weather patterns, particularly 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 first and fourth quarters. Demand related to the new construction sectors throughout most of the markets we serve tends to be fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

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.

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 more environmentally friendly refrigerants used in such systems, including those established by the Kigali Amendment to the Montreal Protocol concerning the phase-down of the production of HFC-based refrigerants 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, but not limited to, the Occupational, Safety and Health Act. We believe that we operate our business in compliance with all applicable federal, state and local laws, and regulations.

Our industry and business are also subject to United States Department of Energy (“DOE”) standards related to the minimum required efficiency levels of residential central air conditioning systems and heat pumps. For purposes of establishing these energy conservation standards, the DOE divides the United States into three regions (the North, the Southeast, and the Southwest) according to the number of hours that an air conditioner operates to cool a home during the hotter months. The seasonal energy efficiency rating, or SEER, is the metric used to measure HVAC energy efficiency. The higher the SEER, the more efficient the HVAC equipment. The current minimum SEER allowed for HVAC equipment is 13 SEER in the North and 14 SEER for the Southeast and Southwest regions.

Beginning in 2023, the minimum efficiency level for residential HVAC systems under 45,000 BTUs will be 14 SEER in the North and 15 SEER in the Southeast and Southwest. For systems over 45,000 BTUs, the minimum efficiency level will be 14 SEER in the North and 14.5 SEER in the Southeast and Southwest. Heat pump efficiency levels, which are measured by the equipment’s heating seasonal performance factor (“HSPF”), will be 8.8 HSPF compared with the 8.2 HSPF required by the current standard for all three regions. It is too early to determine the impact to our results of operations this transition will have; however, we expect a benefit from selling higher efficiency units, which sell at higher prices.

In December 2020, the American Innovation and Manufacturing Act of 2020 (the “AIM Act”) was enacted, which gave the United States Environmental Protection Agency (“EPA”) regulatory authority to address hydrofluorocarbon (“HFC”) refrigerants. HFCs were developed to replace certain refrigerants, such as chlorofluorocarbons and hydrochlorofluorocarbons that were harmful to the ozone layer, but are considered potent greenhouse gases as a result of their global warming potential (“GWP”). The Aim Act directed the EPA to administer an 85% phasedown down of the production and consumption of HFCs over a 15-year timeframe beginning on January 1, 2022 and put in place restrictions on HVAC equipment that require them to have refrigerants with less than 750 GWP by January 1, 2025. We are planning for the transition of our inventory to HVAC equipment with refrigerants that comply with the new standard, and we believe we will complete this transition in accordance with the required timeline.

During 2014, the DOE established new rules for the manufacturing of motors used in residential furnaces with the purpose of increasing the energy efficiency of these motors, and, consequently, the furnaces in which they operate. The mandate dictates that residential furnace fans manufactured in the United States on or after the effective date of July 3, 2019, must have a Fan Energy Rating (“FER”) value reduction of 12% or 46% in watts/cfm, depending on the type of furnace. To meet these new standards, most manufacturers have replaced the permanent split capacitor blower motors in residential furnaces with electronic controlled motors. At December 31, 2020, the transition of our inventory of residential furnaces to those meeting the updated FER standards was complete.

Climate Change and Reductions in CO₂e Emissions

We believe that our business plays an important and significant role in the drive to lower CO₂e emissions. According to the DOE, heating and air conditioning accounts for roughly half of household energy consumption in the United States. As such, replacing HVAC systems at higher efficiency levels is one of the most meaningful steps homeowners can take to reduce their electricity costs and carbon footprint over time.

The overwhelming majority of new HVAC systems that we sell replace systems that likely operate well below current minimum efficiency standards in the United States and may use more harmful refrigerants that have been, or are being, phased-out. As consumers replace HVAC systems with new, higher-efficiency systems, homeowners will consume less energy, save costs and reduce the carbon footprint over time.

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The sale of high-efficiency systems has long been a focus of ours, and we have invested in tools and technology intended to capture an increasingly richer sales mix over time. In addition, regulatory mandates will periodically increase the required minimum SEER, thus providing a catalyst for greater sales of higher-efficiency systems.

We offer a broad variety of systems that operate beyond the minimum SEER standards, including systems that operate at more than 20 SEER. Our sales of higher-efficiency residential HVAC systems grew 26% organically in 2021, outpacing the overall growth rate of 17% for residential HVAC equipment in the United States. Based on estimates validated by independent sources, we averted an estimated 10.1 million metric tons of CO₂e emissions during 2020 and 2021 through the sale of replacement residential HVAC systems at higher-efficiency standards – the equivalent of nearly 2.2 million passenger vehicles driven over the course of one year. More information, including sources and assumptions used to support our estimates, can be found at www.watsco.com/environment. Information contained on, or available through, our website is not incorporated by reference in, or made a part of, this report.

Available Information

Our website is at www.watsco.com. Our investor relations website is located at <https://investors.watsco.com>. We make available, free of charge, on our investor relations website under the heading “SEC Filings” our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed with or furnished to the Securities and Exchange Commission (the “SEC”) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website address is included in this report only as an inactive textual reference. Information contained on, or available through, our website is not incorporated by reference in, or made a part of, this report.

ITEM 1A. RISK FACTORS

Business Risk Factors

COVID-19 Pandemic

The COVID-19 pandemic continues to have widespread, rapidly-evolving and unpredictable impacts on financial markets and business practices. As conditions fluctuate, governments have responded by adjusting their restrictions and guidelines accordingly. In light of variant strains of the virus and the continued rate of viral infections that exists as of the date of this filing, there remains uncertainty concerning the magnitude of the impact and duration of the COVID-19 pandemic. The full impact of the COVID-19 pandemic on our financial condition and results of operations will continue to depend on future developments, such as the ultimate duration and scope of the pandemic, its impact on our employees, customers and suppliers, potential subsequent waves of COVID-19 infection or potential new variants, the effectiveness and adoption of COVID-19 vaccines and therapeutics, the broader implications of the macro-economic recovery on our business, and the extent to which normal economic and operating conditions are impacted. We intend to continue to actively monitor the evolution of the pandemic and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and shareholders.

COVID-19 related factors that have impacted us, or may negatively impact, sales, gross margin and other results of operations in the future include, but are not limited to: limitations on the ability of our suppliers to manufacture, or procure from manufacturers, the products we sell, or to meet delivery requirements and commitments; limitations on the ability of our employees to perform their work due to illness or other disruptions caused by the pandemic, including local, state, or federal orders requiring employees to remain at home; limitations on the ability of carriers to deliver our products to customers; limitations on the ability of our customers to conduct their businesses and purchase our products; and limitations on the ability of our customers to pay us on a timely basis.

As we cannot predict the duration or ultimate scope of the COVID-19 pandemic, the potential negative financial impact to our results of operations cannot be reasonably estimated but could be material and last for an extended period of time.

Supplier Concentration

The Company’s top ten suppliers accounted for 83% of our purchases during 2021, including 61% from Carrier, and 10% from Rheem. Carrier provides a diverse variety of brands of HVAC systems including, Carrier, Bryant, Payne, Tempstar, Heil, Comfortmaker and Grandaire, along with complimentary replacement parts. Rheem provides Rheem-brand HVAC systems along with complimentary replacement parts. Given the significant concentration of our supply chain, particularly with Carrier and Rheem, any significant interruption by any of the key manufacturers or a termination of a relationship could temporarily disrupt the operations of certain of our subsidiaries. Additionally, our operations are materially dependent upon the continued market acceptance and quality of these manufacturers’ products and their ability to continue to manufacture

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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.

Many HVAC equipment and component manufacturers, including Carrier and Rheem, source component parts from China and/or assemble a significant number of products for residential and light-commercial applications from Mexico. If any restrictions, including a potential increase in tariffs, are imposed related to such products sourced or assembled from Mexico and China, including as a result of amendments to existing trade agreements, and our product costs consequently increase, we would be required to raise our prices, which may result in cost inflation, the loss of customers, and harm to our business. In addition, COVID-19, which surfaced in Wuhan, China in December 2019, resulted in increased travel restrictions and extended shutdown of certain businesses in the region. The continuing impact of COVID-19 on our business will depend on future developments; however, closures in China and/or Mexico may disrupt the operations of certain of our suppliers, which could negatively impact our business.

We maintain trade name and distribution agreements with Carrier and Rheem that provide us distribution rights on an exclusive basis in specified territories. Such agreements are not subject to a stated term or expiration date.

We also maintain other distribution agreements with various other suppliers, either on an exclusive or non-exclusive basis, for various terms ranging from one to ten years. Certain of the distribution agreements contain provisions that restrict or limit the sale of competitive products in the locations that sell such branded products. Other than where such location-level restrictions apply, we may distribute other manufacturers' lines of air conditioning or heating equipment in other locations in the same territories.

Risks Inherent in Acquisitions

As part of our strategy, we intend to pursue additional acquisitions of complementary businesses, including through joint ventures and investments in unconsolidated entities. If we complete future acquisitions, including investments in unconsolidated entities, or enter into new 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 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 transactions with complementary acquisition candidates;
- the successful operation and/or integration of acquired companies;
- 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 and investments made in unconsolidated entities may have liabilities that we failed or were unable to discover while performing due diligence investigations. We cannot assure you that the indemnification, if any, granted to us by sellers of acquired companies or by joint venture partners will be sufficient in amount, scope, or duration to offset the possible liabilities associated with businesses or properties that we assume upon consummation of an acquisition or joint venture. 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 other distributors and 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.

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Foreign Currency Exchange Rate Fluctuations

The functional currency of our operations in Canada is the Canadian dollar, and the functional currency of our operations in Mexico is the U.S. dollar because the majority of our Mexican transactions are denominated in U.S. dollars. Foreign currency exchange rates and fluctuations may have an impact on transactions denominated in Canadian dollars and Mexican Pesos, and, therefore, could adversely affect our financial performance. Although we use foreign currency forward contracts to mitigate the impact of currency exchange rate movements, we do not currently hold any derivative contracts that hedge our foreign currency translational exposure.

Seasonality

Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal, resulting in fluctuations in our revenue from quarter to quarter. 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 first and fourth quarters. Demand related to the new construction sectors throughout most of the markets is fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

Dependence on Key Personnel

Much of our success has depended on the skills and experience of senior management personnel. The loss of any of our executive officers or other key senior management personnel could harm our business. We must continuously recruit, retain, and motivate management and other employees to both maintain our current business and to execute our strategic initiatives. Our success has also depended on the contributions and abilities of our store employees upon whom 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 adequately recruit, retain, and motivate employees our projected growth and expansion, and our business and financial performance may be adversely affected.

Decline in Economic Conditions

We rely predominantly on the credit markets and, to a lesser extent, on the capital markets to meet our financial commitments and short-term liquidity needs if internal funds are not available from our operations. Access to funds under our line of credit is dependent on the ability of the syndicate banks to meet their respective funding commitments. Disruptions in the credit and capital markets could adversely affect our ability to draw on our revolving credit agreement and may also adversely affect the determination of interest rates, particularly rates based on LIBOR, which is one of the base rates under our revolving credit agreement. On March 5, 2021, the United Kingdom Financial Conduct Authority, which regulates LIBOR, confirmed that LIBOR will either cease to be provided by any administrator or will no longer be representative after June 30, 2023 for USD LIBOR reference rates. Our revolving credit agreement provides that it may be amended to replace LIBOR with an alternate benchmark rate. The impact of such an amendment cannot be entirely predicted but could result in an increase in the cost of our debt. Additionally, disruptions in the credit and capital markets could also result in increased borrowing costs and/or reduced borrowing capacity under our revolving credit agreement. 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 other 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 and results of operations. Any capital or credit market disruption could cause broader economic downturns, which may lead to reduced demand for our products and an increased incidence of customers' inability to pay their accounts. Further, bankruptcies or similar events by customers may cause us to incur increased levels of bad debt expense. Also, our suppliers may be negatively impacted by deteriorating economic conditions, causing disruption or delay of product availability. These events would adversely impact our results of operations, cash flows, and financial position. Additionally, if the conditions of the capital and credit markets adversely affect the financial institutions that have committed to extend us credit, they may be unable to fund borrowings under such commitments, which could have an adverse impact on our financial condition, liquidity, and our ability to borrow funds for working capital, acquisitions, capital expenditures, and other corporate purposes.

Cybersecurity Risks

In addition to the disruptions that may occur from interruptions in our information technology systems, cybersecurity threats and sophisticated and targeted cyberattacks pose a risk to our information technology systems. We have established security policies, processes and defenses designed to help identify and protect against intentional and unintentional misappropriation

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or corruption of our information technology systems and information and disruption of our operations. Despite these efforts, our information technology systems may be damaged, disrupted or shut down due to attacks by hackers and other persons obtaining unauthorized access, malicious software, ransomware, computer viruses, undetected intrusion, hardware failures or other events, and in these circumstances our disaster recovery plans may be ineffective or inadequate. These breaches or intrusions could lead to business interruption, exposure of proprietary or confidential information, data corruption, damage to our reputation, exposure to legal and regulatory proceedings and other costs. Such events could have a material adverse impact on our financial condition, results of operations and cash flows. In addition, we could be adversely affected if any of our significant customers or suppliers experiences any similar events that disrupt their business operations or damage their reputation.

Failure to successfully manage the operational challenges and risks associated with, or resulting from, upgrades and conversions to newer versions of our information technology systems core to our operations could adversely affect our results of operations, cash flows, and liquidity.

We maintain change management processes, monitoring practices, and protections of our information technology to reduce these risks and test our systems on an ongoing basis for potential threats. The Audit Committee is briefed on information security matters at least once a year. We carry cybersecurity insurance to help mitigate the financial exposure and related notification procedures in the event of intentional intrusion. There can be no assurance, however, that our efforts will prevent the risk of a security breach of our databases or systems that could adversely affect our business.

International Risk

Our international sales and operations, as well as sourcing of products from suppliers with international operations, are subject to various risks associated with changes in local laws, regulations, and policies, including those related to tariffs, trade restrictions and trade agreements, investments, taxation, capital controls, employment regulations, different liability standards, and limitations on the repatriation of funds due to foreign currency controls. Our international sales and operations, as well as sourcing of products from suppliers with international operations, are also sensitive to changes in foreign national priorities, including government budgets, as well as political and economic instability. In addition, closures in China and Mexico due to COVID-19 may disrupt the operations of certain of our suppliers, which could negatively impact our business. Unfavorable changes in any of the foregoing could adversely affect our results of operations or could cause a disruption in our supply chain for products sourced internationally. Additionally, failure to comply with the United States Foreign Corrupt Practices Act could subject us to, among other things, penalties and legal expenses that could harm our reputation and have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to our Common Stock

Class B Common Stock and Insider Ownership

As of December 31, 2021, our directors and executive officers and entities affiliated with them owned (i) Common stock representing 1% of the outstanding shares of Common stock and (ii) Class B common stock representing 84% of the outstanding shares of Class B common stock. These interests represent 54% of the aggregate combined voting power (including 52% beneficially owned by Albert H. Nahmad, Chairman and Chief Executive Officer, and Aaron J. Nahmad, President, through shares owned by them and shares held by affiliated limited partnerships and various family trusts). Accordingly, our directors and executive officers collectively have the voting power to elect six members of our nine-person Board of Directors.

Our Class B common stock is substantially identical to our Common stock except: (i) Common stock is entitled to one vote on all matters submitted to a vote of our shareholders, and each share of Class B common stock is entitled to ten votes; (ii) shareholders of Common stock are entitled to elect 25% of our 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.

Future Sales

We are not restricted from issuing additional shares of our Common stock or Class B common stock (which we refer to together as common stock), including securities that are convertible into or exchangeable for, or that represent the right to receive, our common stock or any substantially similar securities in the future. We may issue shares of our common stock or other securities in one or more registered or unregistered offerings, and we may also issue our securities in connection with investments or acquisitions. The number of shares of our common stock issued in connection with any of the foregoing may result in dilution to holders of our common stock.

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Volatility

The market price of our common stock may be highly volatile and could be subject to wide fluctuations. Securities markets worldwide experience significant price and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of shares of our common stock in spite of our operating performance. The trading price of our common stock may be adversely affected due to a number of factors, most of which we cannot predict or control, such as the following:

- fluctuations in our operating results;
- a decision by the Board of Directors to reduce or eliminate cash dividends on our common stock;
- changes in recommendations or earnings estimates by securities analysts;
- general market conditions in our industry or in the economy as a whole; and
- political instability, natural disasters, war and/or events of terrorism.

Trading Liquidity

The trading market for our common stock is limited, and there can be no assurance that a more liquid trading market for our common stock will develop. There can be no assurance as to the liquidity of any market for our common stock, the ability of the holders of our common stock to sell any of their securities and the price at which the holders of our common stock will be able to sell such securities.

Payment of Dividends

The amount of any future dividends that we will pay, if any, will depend upon a number of factors. 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, future prospects, and other factors deemed relevant by our Board of Directors. The right of our Board of Directors to declare dividends, however, is subject to the availability of sufficient funds under Florida law to pay dividends. In addition, our ability to pay dividends depends on certain restrictions in our credit agreement.

Securities Analyst Research and Reports

The trading markets for our common stock rely in part on the research and reports that industry or financial analysts publish about us or our business or industry. If one or more of the analysts who cover us downgrade our stock or our industry, or the stock of Carrier or any of our competitors, publish negative or unfavorable research about our business, the price of our stock could decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the market, which in turn could cause our stock price or trading volume to decline.

General Risk Factors

Goodwill, Intangibles and Long-Lived Assets

At December 31, 2021, goodwill, intangibles, and long-lived assets represented approximately 36% of our total assets. The recoverability of goodwill, indefinite lived intangibles, and long-lived assets 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, indefinite lived intangibles, and long-lived assets 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, intangibles, or long-lived assets in the future.

Risks Related to Loss Contingencies

We carry general liability, comprehensive property damage, workers' compensation, health benefits, cybersecurity, and other insurance coverage that management considers adequate for the protection of its assets and operations at reasonable premiums. There can be no assurance that the coverage limits and related premiums of such policies will be adequate to cover claims, losses and expenses for lawsuits which have been, or 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.

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Exposure to catastrophic losses has been limited by maintaining excess and aggregate liability coverage and implementing stop-loss control programs. However, more frequent catastrophic weather events linked to climate change may impact the availability and cost of property and casualty insurance.

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, 2021, we operated 671 warehousing and distribution facilities across 42 U.S. states, Canada, Mexico, and Puerto Rico, having an aggregate of approximately 15.7 million square feet of space, of which approximately 15.5 million square feet is leased. The majority of these leases are for terms of three to five years. We believe that our facilities are sufficient to meet our present operating needs.

Trucks

At December 31, 2021, we operated 821 ground transport vehicles, including delivery and pick-up trucks, vans, and tractors. Of this number, 520 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 Facilities

Senior management and support staff are located at various administrative offices in approximately 0.3 million square feet of space.

ITEM 3. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 19 to our audited consolidated financial statements included in this Annual Report on Form 10-K under the caption "Litigation, Claims and Assessments," which information is incorporated by reference in this Item 3 of Part I of this Annual Report on Form 10-K.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

Our Common stock is listed on the New York Stock Exchange under the ticker symbol WSO, and our Class B common stock is listed on the New York Stock Exchange under the ticker symbol WSOB.

Holders

At February 22, 2022, there were 233 Common stock registered shareholders and 156 Class B common stock registered shareholders.

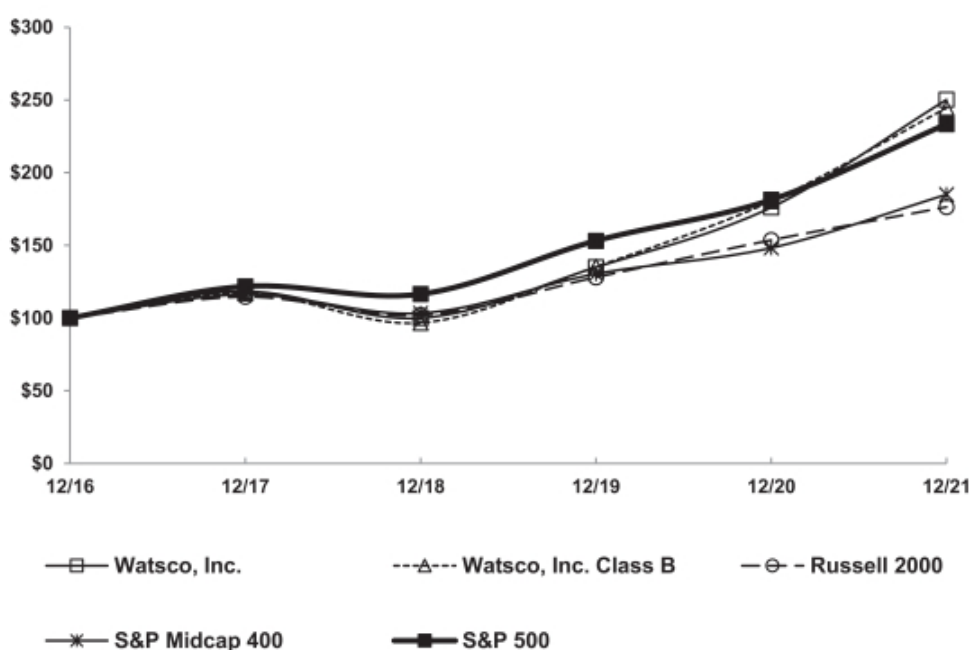
Shareholder Return Performance

The following graph compares the cumulative five-year total shareholder return attained by holders of our Common stock and Class B common stock relative to the cumulative total returns of the Russell 2000 index, the S&P MidCap 400 index, and the S&P 500 index. Given our position as the largest distributor of HVAC/R equipment, parts and supplies in North America, our unique, sole line of business, the nature of our customers (air conditioning and heating contractors), and the products and markets we serve, we cannot reasonably identify an appropriate peer group; therefore, we have included in the graph below the performance of the Russell 2000 index, the S&P MidCap 400 index, and the S&P 500 index, which contain companies with market capitalizations similar to our own. An investment of \$100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each index on December 31, 2016 and its relative performance is tracked through December 31, 2021.

The performance graph shall not be deemed incorporated by reference by any general statement incorporating by reference this annual report into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, except to the extent we specifically incorporate this information by reference, and shall not otherwise be deemed filed under such acts.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Watsco, Inc., the Russell 2000 Index, the S&P Midcap 400 Index and the S&P 500 Index



*\$100 invested on 12/31/16 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

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	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
Watsco, Inc.	100.00	118.36	99.99	134.94	176.11	250.19
Watsco, Inc. Class B	100.00	117.11	96.73	135.33	180.41	244.52
Russell 2000 Index	100.00	114.65	102.02	128.06	153.62	176.39
S&P MidCap 400 Index	100.00	116.24	103.36	130.44	148.26	184.96
S&P 500 Index	100.00	121.83	116.49	153.17	181.35	233.41

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

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. No shares were repurchased under this plan during 2021, 2020 or 2019. 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 this plan. At December 31, 2021, there were 1,129,087 shares remaining authorized for repurchase under this plan. Shares were last repurchased by the Company in 2008; thus, we did not otherwise repurchase any of our common stock during the quarter ended December 31, 2021.

ITEM 6. [RESERVED]

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

Our 2021 Annual Report contains “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which section is incorporated herein by reference.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our 2021 Annual Report contains “Quantitative and Qualitative Disclosures about Market Risk,” which section is incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our 2021 and 2020 Consolidated Balance Sheets and other consolidated financial statements for the years ended December 31, 2021, 2020 and 2019, together with the report thereon of KPMG LLP dated February 25, 2022, included in our 2021 Annual Report are 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”), Executive Vice President (“EVP”) 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, EVP 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, EVP 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 2021 Annual Report contains “Management’s Report on Internal Control over Financial Reporting” and the report thereon of KPMG LLP dated February 25, 2022, 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 were 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, 2021, 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 Makdad Industrial Supply Co., Inc. (“MIS”), Acme Refrigeration LLC (“ACME”), or TEC Distribution LLC (“TEC”), which collectively represented approximately 8% of our consolidated assets at December 31, 2021 and approximately 5% of our consolidated revenues for the year ended December 31, 2021. From the respective acquisition dates of August 20, 2021, May 7, 2021, and April 9, 2021 to December 31, 2021, the processes and systems of MIS, ACME, and TEC did not impact the internal controls over financial reporting for our other consolidated subsidiaries.

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ITEM 9B. OTHER INFORMATION

As previously reported, on August 6, 2021, the Company entered into a Sales Agreement (the “Original Sales Agreement”) with Robert W. Baird & Co. Incorporated (the “Agent”), relating to the Company’s issuance and sale, from time to time, of up to \$300.0 million of its Common stock in a registered offering pursuant to the Company’s effective Registration Statement on Form S-3. The Sales Agreement provided for the sale of shares in negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act, including sales made directly on the New York Stock Exchange, or sales made to or through a market maker other than on an exchange. On February 25, 2022, the Company entered into an amended and restated Sales Agreement (the “A&R Sales Agreement”) together with Robert W. Baird & Co. Incorporated and Goldman Sachs & Co. LLC (“GS”) for the purpose of adding GS as an additional Agent thereunder and making necessary conforming changes. The A&R Sales Agreement otherwise retains all material terms of the Original Sales Agreement.

The foregoing description of the A&R Sales Agreement is only a summary and is qualified in its entirety by reference to the full text of the A&R Sales Agreement, which is filed as Exhibit 10.5(b) to this Annual Report on Form 10-K and incorporated by reference in this Item 9B.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

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, FINANCIAL STATEMENT SCHEDULES

- (a)(1) Financial Statements. Our consolidated financial statements are incorporated by reference from our 2021 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 exhibits are submitted with this Annual Report on Form 10-K or, where indicated, incorporated by reference to other filings.

INDEX TO EXHIBITS

- 3.1 [Composite Articles of Incorporation of Watsco, Inc. \(filed as Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2012 and incorporated herein by reference\).](#)
- 3.2 [Watsco, Inc. Second Amended and Restated Bylaws effective August 1, 2016 \(filed as Exhibit 3.1 to the Current Report on Form 8-K on August 5, 2016 and incorporated herein by reference\).](#)
- 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). (P)
- 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). (P)
- 4.3 [Description of Capital Stock](#) (filed as Exhibit 4.3 to the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and incorporated herein by reference).
- 10.1(a) [Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.20 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 1996 and incorporated herein by reference\).](#)*
- 10.1(b) [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 \(filed as Exhibit 10.13 to the Annual Report on Form 10-K for the year ended December 31, 2000 and incorporated herein by reference\).](#)*
- 10.1(c) [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 \(filed as Exhibit 10.15 to the Annual Report on Form 10-K for the year ended December 31, 2001 and incorporated herein by reference\).](#)*
- 10.1(d) [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 \(filed as Exhibit 10.11 to the Annual Report on Form 10-K for the year ended December 31, 2002 and incorporated herein by reference\).](#)*

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- 10.1(e) [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 \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 and incorporated herein by reference\).](#) *
- 10.1(f) [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 \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 and incorporated herein by reference\).](#) *
- 10.1(g) [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 \(filed as Exhibit 10.16 to the Annual Report on Form 10-K for the year ended December 31, 2005 and incorporated herein by reference\).](#) *
- 10.1(h) [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 \(filed as Exhibit 10.18 to the Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference\).](#) *
- 10.1(i) [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 \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by reference\).](#) *
- 10.1(j) [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 \(filed as Exhibit 10.19 to the Annual Report on Form 10-K for the year ended December 31, 2008 and incorporated herein by reference\).](#) *
- 10.1(k) [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 \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 and incorporated herein by reference\).](#) *
- 10.1(l) [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 \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 and incorporated herein by reference\).](#) *
- 10.1(m) [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 \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 and incorporated herein by reference\).](#) *
- 10.1(n) [Thirteenth Amendment dated January 1, 2012 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 and incorporated herein by reference\).](#) *
- 10.1(o) [Fourteenth Amendment dated January 1, 2013 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 and incorporated herein by reference\).](#) *
- 10.1(p) [Fifteenth Amendment dated January 1, 2014 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and incorporated herein by reference\).](#) *
- 10.1(q) [Sixteenth Amendment dated January 1, 2015 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 and incorporated herein by reference\).](#) *
- 10.1(r) [Seventeenth Amendment dated January 1, 2016 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and incorporated herein by reference\).](#) *
- 10.1(s) [Eighteenth Amendment dated January 1, 2017 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2017 and incorporated herein by reference\).](#) *

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- 10.1(t) [Nineteenth Amendment dated January 1, 2018 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 and incorporated herein by reference\).](#) *
- 10.1(u) [Twentieth Amendment dated January 1, 2019 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 and incorporated herein by reference\).](#) *
- 10.1(v) [Twenty-first Amendment dated January 1, 2020 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and incorporated herein by reference\).](#) *
- 10.1(w) [Twenty-second Amendment dated January 1, 2021 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad \(filed as Exhibit 10.1\(w\) to the Annual Report on Form 10-K for the year ended December 31, 2020 and incorporated herein by reference\).](#) *
- 10.1(x) [Twenty-third Amendment dated January 1, 2022 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad.](#) **
- 10.2(a) [Watsco, Inc. 2014 Incentive Compensation Plan \(filed as Appendix A to the Definitive Proxy Statement on Schedule 14A in respect of our 2014 Annual Meeting of Shareholders and incorporated herein by reference\).](#) *
- 10.2(b) [Watsco, Inc. 2021 Incentive Compensation Plan \(filed as Appendix A to the Definitive Proxy Statement on Schedule 14A in respect of our 2021 Annual Meeting of Shareholders and incorporated herein by reference\).](#) *
- 10.3 [Fourth Amended and Restated 1996 Qualified Employee Stock Purchase Plan dated April 18, 2011 \(filed as Appendix A to the Definitive Proxy Statement on Schedule 14A in respect of our 2011 Annual Meeting of Shareholders and incorporated herein by reference\).](#) *
- 10.4(a) [Credit Agreement dated as of December 5, 2018, by and among Watsco, Inc., Watsco Canada, Inc. and Carrier Enterprise Mexico, S. de R.L. de C.V., as Borrowers, the Other Lenders From Time to Time Party Thereto, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, JPMorgan Chase Bank, N.A. as Syndication Agent and Branch Banking and Trust Company, U.S. Bank National Association and Wells Fargo Bank, National Association as Co-Documentation Agents \(filed as Exhibit 10.1 to the Current Report on Form 8-K on December 11, 2018 and incorporated herein by reference\).](#)
- 10.4(b) [Revolving Credit Increase and Joinder Agreement, dated as of April 10, 2020, by and among Watsco, Inc., Watsco Canada, Inc. and Carrier Enterprise Mexico, S. de R.L. de C.V., as Borrowers, Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, Regions Bank, and PNC Bank N.A. as a joining Lender \(filed as Exhibit 10.1 to the Current Report on Form 8-K on April 16, 2020 and incorporated herein by reference\).](#)
- 10.5(a) [Sales Agreement dated August 6, 2021, by and between Watsco, Inc. and Robert W. Baird & Co. Incorporated \(filed as Exhibit 1.1 to the Current Report on Form 8-K on August 6, 2021 and incorporated herein by reference\).](#)
- 10.5(b) [Amended and Restated Sales Agreement dated February 25, 2022, by and between Watsco, Inc., Robert W. Baird & Co. Incorporated, and Goldman Sachs & Co. LLC.](#) #
- 13 [2021 Annual Report to Shareholders \(with the exception of the information incorporated by reference into Items 7, 8 and 9 of this Form 10-K, the 2021 Annual Report to Shareholders is provided solely for the information of the SEC and is not deemed “filed” as part of this Form 10-K\).](#) #
- 21.1 [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 Executive 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.](#) #

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32.1	<u>Certification of Chief Executive Officer, Executive Vice President and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> +
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. #
101.SCH	Inline XBRL Taxonomy Extension Schema Document. #
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document. #
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document. #
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document. #
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document. #
104	The cover page from the Company's Annual Report on Form 10-K for the year ended December 31, 2021, formatted in Inline XBRL.

filed herewith.
+ furnished herewith.
* management contract or compensation plan or arrangement.

ITEM 16. FORM 10-K SUMMARY

None.

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 25, 2022

By: /s/ Albert H. Nahmad
Albert H. Nahmad, Chief Executive Officer

February 25, 2022

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.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ ALBERT H. NAHMAD</u> Albert H. Nahmad	Chairman of the Board and Chief Executive Officer (principal executive officer)	February 25, 2022
<u>/s/ ANA M. MENENDEZ</u> Ana M. Menendez	Chief Financial Officer (principal accounting officer and principal financial officer)	February 25, 2022
<u>/s/ CESAR L. ALVAREZ</u> Cesar L. Alvarez	Director	February 25, 2022
<u>/s/ J. MICHAEL CUSTER</u> J. Michael Custer	Director	February 25, 2022
<u>/s/ DENISE DICKINS</u> Denise Dickins	Director	February 25, 2022
<u>/s/ BRIAN E. KEELEY</u> Brian E. Keeley	Director	February 25, 2022
<u>/s/ JOHN A. MACDONALD</u> John A. Macdonald	Director	February 25, 2022
<u>/s/ BOB L. MOSS</u> Bob L. Moss	Director	February 25, 2022
<u>/s/ AARON J. NAHMAD</u> Aaron J. Nahmad	Director and President	February 25, 2022
<u>/s/ STEVEN RUBIN</u> Steven Rubin	Director	February 25, 2022

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**TWENTY-THIRD AMENDMENT
TO
EMPLOYMENT AGREEMENT**

This Twenty-third Amendment to Employment Agreement is made and entered into effective as of the 1st day of January 2022, by and between **WATSCO, INC.**, a Florida corporation (hereinafter called the “Company”), and **ALBERT H. NAHMAD** (hereinafter called the “Employee”).

RECITALS

WHEREAS, the Company and the Employee entered into an Employment Agreement effective as of January 31, 1996 (the “Employment Agreement”) pursuant to which the Employee renders certain services to the Company; and

WHEREAS, the Compensation Committee of the Company’s Board of Directors amended the Employment Agreement effective as of January 1, for each of 2001 through 2021; and

WHEREAS, the Compensation Committee of the Company’s Board of Directors has determined that the Employee’s Base Salary will be \$600,000 for calendar year 2022; and

WHEREAS, the Compensation Committee of the Company’s Board of Directors has determined the Employee’s use of the Company’s airplane for personal purposes for up to seventy (70) hours during the calendar year 2022. The Company shall pay all fuel and operational costs incident thereto. The value of the Employee’s usage of the Company’s airplane shall be treated as compensation for tax purposes; and

WHEREAS, the Compensation Committee of the Company’s Board of Directors has set the targets for the long-term performance-based compensation payable in the form of restricted shares by the Company to the Employee for the year 2022; and

WHEREAS, the long-term performance-based compensation payable by the Company to the Employee for the calendar year 2022 shall not exceed \$10 million.

NOW, THEREFORE, in consideration of the mutual promises and covenants set forth in this Twenty-third Amendment, and other good and valuable consideration, the parties to this Twenty-third Amendment agree as follows:

1. All capitalized terms in this Twenty-third Amendment shall have the same meaning as in the Employment Agreement, unless otherwise specified.
2. The Employment Agreement is hereby amended by replacing “Exhibit A-1 — 2021 Performance Goals and Long-term Performance Based Compensation” with the attached “Exhibit A-1 — 2022 Performance Goals and Long-term Performance Based Compensation” thereto.
3. All other terms and conditions of the Employment Agreement shall remain the same.

IN WITNESS WHEREOF, the parties have caused this Twenty-third Amendment to be duly executed effective as of the day and year first above written.

WATSCO, INC.

By: /s/ Barry S. Logan
Barry S. Logan, Executive Vice President

EMPLOYEE

By: /s/ Albert H. Nahmad
Albert H. Nahmad

EXHIBIT A-1
2022 PERFORMANCE GOALS AND LONG-TERM PERFORMANCE BASED COMPENSATION

Overview

Watsco's compensation program is grounded by the guiding principle that compensation should be highly dependent upon long-term shareholder returns. This key tenet of our compensation philosophy has driven the unique design of our program for many years and has enabled our executive leadership team to stay solidly focused on long-term performance. We have generated a compounded annual growth rate for total shareholder return of 19% over the last 32 years.

The most unique aspect of the program is the use of restricted stock that requires an executive to spend his or her entire career with the Company in order to vest. We believe granting restricted stock effectively balances strategic risk-taking and long-term performance, creates an ownership culture, and aligns the interests of high-performing leaders with the interests of our shareholders. Additionally, we believe these awards help build a sustainable future by ensuring that our executives make the right long-term business decisions that will survive well past their retirement.

We began granting restricted stock awards in 1997. All the restricted shares we have granted to our leaders throughout the Company vest upon reaching retirement age (usually 62 or older). Based on data provided by Equilar, the duration of our cliff-vesting period is solely unique to Watsco. Vesting may also occur at an even later date for those who extend their careers beyond age 62. This means that our key leaders will not know the value and cannot realize the value of their equity awards until they have spent their career with the Company. As it relates to our CEO, none of his restricted share awards have ever vested. On a weighted-average basis, his awards will vest in approximately 2.3 years.

In formulating the amount of a potential award, the Compensation Committee believes that the 'present-value' of an award versus the 'face-value' of an award is considerably less due to the unusually long vesting periods and associated risks of forfeiture.

Annual Performance-based Restricted Stock Award

The formula for determining the CEO's Annual Performance-based Restricted Stock Award has been consistent, and for 2022 is as follows:

	Amount of Restricted Stock Award
<u>Earnings Per Share (EPS)</u>	
For each \$.01 increase if growth is below 5%	\$ 43,500
For each \$.01 increase if growth is at or above 5%	\$ 65,000
B. <u>Increase in Common Stock Price</u>	
If the closing price of a share of Common Stock on 12/31/22 does not exceed \$312.88	\$ 0
If the closing price of a share of Common Stock on 12/31/22 exceeds \$312.88 but does not equal or exceed \$375.45, for each \$.01 increase in per share price of a share of Common Stock above \$312.88	\$ 1,200
If the closing price of a share of Common Stock on 12/31/22 equals or exceeds \$375.45, for each \$.01 increase in per share price of a share of Common Stock above \$312.88	\$ 1,800

Other Considerations

The amount of Performance-Based Restricted Stock Award shall be subject to a cap of \$10 million. The award shall be paid through the issuance of a number of restricted shares of Class B Common Stock of the Company (the "Shares") equal to the amount determined by dividing (x) the Performance-Based Restricted Stock Award Amount by (y) the closing price for the Class B Common Stock of the Company on the New York Stock Exchange as of the close of trading on December 31, 2022. The value of any fractional shares shall be paid in cash.

The restrictions on the Shares shall lapse on the first to occur of (i) October 15, 2029, (ii) termination of the Executive's employment with the Company by reason of Executive's disability or death, (iii) the Executive's termination of employment with the Company for Good Reason, (iv) the Company's termination of Executive's employment without Cause, or (v) the occurrence of a Change in Control of the Company ("Good Reason," "Cause," and "Change in Control" to be defined in a manner consistent with the most recent grant of Restricted Stock by the Company to the Executive).

The Performance-Based Restricted Stock Award is being made by the Compensation Committee as performance awards of restricted stock pursuant to the Company's 2021 Incentive Compensation Plan or any successor plan (the "Incentive Plan") and are subject to the limitations contained in Section 5 of the Incentive Plan.

Effective as of January 1, 2022

COMPENSATION COMMITTEE

By: /s/ Denise Dickins

Denise Dickins, Chair

ACKNOWLEDGED AND ACCEPTED

By: /s/ Albert H. Nahmad

Albert H. Nahmad

WATSCO, INC.**Common Stock
(\$0.50 par value per share)****Amended and Restated Sales Agreement**

February 25, 2022

Robert W. Baird & Co. Incorporated
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202

Goldman Sachs & Co. LLC
200 West Street, 29th Floor
New York, New York 10282

Ladies and Gentlemen:

Watsco, Inc., a Florida corporation (the “**Company**”), confirms its agreement (this “**Agreement**”) with Robert W. Baird & Co. Incorporated and Goldman Sachs & Co. LLC (each, an “**Agent**” and collectively, the “**Agents**”), as follows. This Agreement amends and restates in its entirety that certain Sales Agreement, dated as of August 6, 2021 (the “**Prior Agreement**”), by and between the Company and Robert W. Baird & Co. Incorporated.

1. Issuance and Sale of Placement Shares.

The Company agrees that, from time to time during the term of this Agreement, on the terms and subject to the conditions set forth herein, it may issue and sell through the Agents, acting as agents and/or principals, shares (the “**Placement Shares**”) of the Company’s common stock, \$0.50 par value per share (the “**Common Stock**”), having a maximum aggregate offering price of up to \$300,000,000 (the “**Maximum Amount**”). Notwithstanding anything to the contrary contained herein, the parties hereto agree that compliance with the limitation set forth in this Section 1 relating to the issuance and sale of Placement Shares not in excess of the Maximum Amount pursuant to this Agreement shall be the sole responsibility of the Company, and the Agents shall have no obligation in connection with such compliance, provided that the Agents strictly follow the trading instructions provided by the Company pursuant to each Placement Notice. The issuance and sale of Placement Shares through the Agents shall be effected pursuant to the Registration Statement (as defined below).

The Company agrees that whenever it determines to sell Placement Shares directly to an Agent as principal it will enter into a separate written Terms Agreement (each, a “**Terms Agreement**”), in substantially the form of Annex I hereto, relating to such sale in accordance with Section 6(e) hereof. References herein to “this Agreement” or to matters contained “herein” or “hereunder,” or words of similar import, mean this Agreement and any applicable Terms Agreement.

The Company has filed with the Securities and Exchange Commission (the “**Commission**”), in accordance with the provisions of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder (collectively, the “**Securities Act**”), a registration statement on Form S-3 (File No. 333-260758), including a base prospectus, relating to certain securities, including the Common Stock, to be offered from time to time by the Company (as amended or supplemented from time to time, the “**Base Prospectus**”), and incorporating by reference documents that the Company has filed or will file in accordance with the provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (collectively, the “**Exchange Act**”). The Company has prepared and filed with the Commission a prospectus supplement to the Base Prospectus specifically relating to the Placement Shares (as amended or supplemented from time to time, the “**Prospectus Supplement**”). Promptly after execution and delivery of this Agreement, the Company will file a supplement to the Prospectus Supplement in accordance with the provisions of Rule 424(b) under the Securities Act (“**Rule 424(b)**”). The Company will furnish to the Agents, for use by the Agents, copies (which may be in electronic form) of the Base Prospectus, as supplemented by the Prospectus Supplement. Except where the context otherwise requires, such registration statement, as amended by any post-effective amendments thereto, including all documents filed as part thereof or incorporated by reference therein, and including any information contained in a Prospectus (as defined below) subsequently filed with the Commission pursuant to Rule 424(b) or deemed to be a part of such registration statement pursuant to Rule 430B under the Securities Act, as well as any comparable successor registration statement filed by the Company for the sale of shares of the Placement Shares, collectively are herein called the “**Registration Statement**.” The Base Prospectus, as supplemented by the Prospectus Supplement, including the documents incorporated by reference therein, in the form in which such Base Prospectus and such Prospectus Supplement have most recently been filed by the Company with the Commission pursuant to Rule 424(b) is herein called the “**Prospectus**.” Any then issued “issuer free writing prospectus” as defined in Rule 433 under the Securities Act (“**Rule 433**”) relating to the Placement Shares is herein called an “**Issuer Free Writing Prospectus**.”

For purposes of this Agreement, all references to the Registration Statement, the Prospectus or to any amendment or supplement thereto shall be deemed to include any copy filed with the Commission pursuant to its Electronic Data Gathering Analysis and Retrieval System or, if applicable, the Interactive Data Electronic Applications (collectively, “**EDGAR**”).

2. Placements.

On each Trading Day that the Company wishes to issue and sell Placement Shares hereunder (each, a “**Placement**”), it will notify an Agent (the “**Designated Agent**”) by email notice or by telephone notice followed by email confirmation (or other method mutually agreed to in writing by the parties) (a “**Placement Notice**”) containing the parameters in accordance with which it desires the Placement Shares to be sold, which shall at a minimum include the number of Placement Shares to be issued and sold on such day and any minimum price below which sales shall not be made. A form of Placement Notice, which contains such minimum required sales parameters, is attached hereto as Exhibit A. A Placement Notice shall originate

from any of the individuals from the Company set forth on Schedule 2 (with a copy to each of the other individuals from the Company listed on such schedule), as amended in writing by the Company from time to time, and shall be addressed to each of the individuals from the Designated Agent set forth on Schedule 2, as amended in writing from time to time by the Agents. Each Placement Notice shall be effective upon receipt by the Designated Agent unless and until (i) in accordance with the notice requirements set forth in Section 4, the Designated Agent declines to accept the terms contained therein for any reason in its sole discretion (which notice shall be effective upon transmission), (ii) the entire amount of the Placement Shares to be sold pursuant to such Placement Notice have been sold, (iii) in accordance with the notice requirements set forth in Section 4, the Company or the Designated Agent suspends or terminates such Placement Notice, (iv) the Company issues a subsequent Placement Notice with parameters superseding those set forth in such Placement Notice, or (v) this Agreement has been terminated under the provisions of Section 11. The amount of any discount, commission or other compensation to be paid by the Company to the Designated Agent in connection with the sale of the Placement Shares shall be calculated in accordance with the terms set forth in Schedule 1 and shall not exceed 2.0% of the gross sales price for such Placement Shares. It is expressly acknowledged and agreed that neither the Company nor the Designated Agent will have any obligation whatsoever with respect to a Placement Notice or any Placement Shares unless and until the Company delivers a Placement Notice to the Designated Agent and the Designated Agent does not decline such Placement Notice pursuant to the terms set forth above, and then only upon the terms specified therein and herein. On any Trading Day, the Company shall sell Placement Shares through only one of the Agents and the Company shall give at least one Business Day's (as defined below) prior written notice to the Agents (including by email correspondence to each of the individuals of the Agents set forth on Schedule 2, as amended from time to time, if receipt of such correspondence is actually acknowledged by any of the individuals to whom the notice is sent, other than via auto-reply) to notify them of any change of the Designated Agent through which the sale of Placement Shares will be effected. Notwithstanding anything to the contrary contained herein, no Placement Notice shall be delivered by the Company and, by notice to the Designated Agent given by telephone (confirmed promptly by email), the Company shall cancel any previously delivered Placement Notice, and no Agent shall be obligated to offer or sell any Placement Shares (a) at any such time as the Company's directors and officers would not then be permitted to buy or sell securities of the Company in the open market under the Company's insider trading policy, (b) at such time when the Company is in possession of material nonpublic information, or (c) at any time from and including the date that is five (5) Business Days before the end of each fiscal quarter through and including the time that the Company files (each, a "**Filing Time**") (1) in the case of the Company's first three fiscal quarters, a Quarterly Report on Form 10-Q that includes the Company's consolidated financial statements for that fiscal quarter or (2) in the case of the Company's last fiscal quarter, an Annual Report on Form 10-K that includes the Company's consolidated financial statements for the prior fiscal year, provided, that, in the event the Company has not issued a press release containing, or otherwise publicly announced, its earnings, revenues or other results of operations for that fiscal quarter at least 24 hours prior to the applicable Filing Time, the restricted period in this clause (c) shall continue through and including the time that is 24 hours after the applicable Filing Time. In the event of a conflict between the terms of this Agreement and the terms of any Placement Notice, the terms of such Placement Notice will control (unless such Placement Notice is declined, suspended or otherwise terminated in accordance with the terms of this Agreement).

3. Sale of Placement Shares by the Agents.

On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, upon the Designated Agent's acceptance of the terms of a Placement Notice, and unless the sale of the Placement Shares described therein has been declined, suspended, or otherwise terminated in accordance with the terms of this Agreement, the Designated Agent, for the period specified in the Placement Notice, will use its commercially reasonable efforts consistent with its customary trading and sales practices to sell such Placement Shares up to the amount specified in such Placement Notice, and otherwise in accordance with the terms of such Placement Notice. The Designated Agent acting under a Placement Notice will provide written confirmation to the Company (which may be sent by email correspondence to the persons identified on Schedule 2), no later than the opening of the Trading Day immediately following the Trading Day on which sales of Placement Shares have been made hereunder, setting forth the number of Placement Shares sold on such day, the compensation payable by the Company to the Designated Agent pursuant to Section 2 with respect to such sales, and the Net Proceeds (as defined below) payable to the Company. The Designated Agent may sell Placement Shares in ordinary brokers' transactions (whether or not solicited), to or through a market maker, directly on or through any national securities exchange or facility thereof, a trading facility of a national securities association, an alternative trading system or any other market venue where the securities may be traded, in the over-the-counter market, in privately negotiated transactions, in transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act or through a combination of any such methods of sale. During the term of this Agreement and notwithstanding anything to the contrary herein, each Agent agrees that in no event will it or any affiliate of such Agent engage in any market making, bidding, stabilization or other trading activity with regard to the Common Stock if such activity would be prohibited under Regulation M under the Exchange Act ("**Regulation M**") or other anti-manipulation rules under the Securities Act. For purposes of this Agreement, "**Trading Day**" means any day on which shares of the Common Stock may be purchased and sold on the New York Stock Exchange ("**NYSE**").

4. Suspension or Termination of Sales.

The Company or the Designated Agent may, upon notice to the other party in writing (including by email correspondence to each of the individuals of the other party set forth on Schedule 2, as amended from time to time, if receipt of such correspondence is actually acknowledged by any of the individuals to whom the notice is sent, other than via auto-reply) or by telephone (confirmed immediately by verifiable facsimile transmission or email correspondence to each of the individuals of the other party set forth on Schedule 2, as amended in writing from time to time by the applicable party), suspend or terminate any sale of Placement Shares; *provided, however*, that such suspension or termination shall not affect or impair the other party's obligations with respect to any Placement Shares sold hereunder prior to the receipt of such notice. Each of the parties agrees that no such notice under this Section 4 shall be effective against the other unless it is made to one of the individuals named on Schedule 2, as amended in writing from time to time.

5. Representations and Warranties of the Company

The Company represents and warrants to the Agents that as of the date hereof, each Representation Date (as defined below), the time of delivery of each Placement Notice, the time of each sale of any Placement Shares pursuant to this Agreement and each Settlement Date:

(a) The Registration Statement is an “automatic shelf registration statement” as defined under Rule 405 under the Securities Act, and was filed not earlier than three years prior to the date hereof; the Registration Statement became effective on filing; and no stop order suspending the effectiveness of the Registration Statement or any part thereof has been issued and no proceeding for that purpose has been initiated or, to the Company’s knowledge, threatened by the Commission, and no notice of objection of the Commission to the use of the Registration Statement pursuant to Rule 401(g)(2) under the Securities Act has been received by the Company.

(b) No order preventing or suspending the use of the Prospectus or any Issuer Free Writing Prospectus has been issued by the Commission.

(c) For the purposes of this Agreement, the “**Applicable Time**” means, with respect to any Placement Shares, the time of sale of such Placement Shares pursuant to this Agreement; the Prospectus, as of each Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; and each Issuer Free Writing Prospectus does not conflict with the information contained in the Registration Statement or the Prospectus, and each such Issuer Free Writing Prospectus, as supplemented by and taken together with the Prospectus, as of each Applicable Time, did not include any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that this representation and warranty shall not apply to statements or omissions made in an Issuer Free Writing Prospectus in reliance upon and in conformity with the Agent Information (as defined below).

(d) The documents incorporated by reference in the Prospectus, when they became effective or were filed with the Commission, as the case may be, conformed in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, and at such time none of such documents contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; any further documents so filed and incorporated by reference in the Prospectus or any further amendment or supplement thereto, when such documents become effective or are filed by the Company with the Commission, as the case may be, will conform in all material respects to the requirements of the Securities Act or the Exchange Act, as applicable, and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with the Agent Information; and no such documents were filed by the Company with the Commission since the Commission’s close of business on the Business Day immediately prior to the date of this Agreement and prior to the execution of this Agreement.

(e) The Registration Statement conforms, and conformed as of the time of its effectiveness, and the Prospectus and any further amendments or supplements to the Registration Statement and the Prospectus will conform, in all material respects to the requirements of the Securities Act and do not and will not, as of (i) the applicable effective date as to each part of the Registration Statement and as of the applicable filing date as to the Prospectus and any amendment or supplement thereto and (ii) each Settlement Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with the Agent Information.

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

(g) The Company and its subsidiaries have good and marketable title in fee simple or have valid rights to lease or otherwise use all real property, and good and marketable title to, or valid rights to lease or otherwise use, all personal property, in each case free and clear of all liens, encumbrances and defects except such as are described in the Prospectus or such as do not materially affect the value of such property and do not interfere with the use made of such property by the Company and its subsidiaries, in each case, except as would not reasonably be expected to have a Material Adverse Effect.

(h) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of Florida, with corporate power and authority to own its properties and conduct its business as described in the Prospectus, and has been duly qualified as a foreign corporation for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties or conducts any business so as to require such qualification, other than any failure to be so qualified and in good standing as a foreign corporation that would reasonably be expected to have a Material Adverse Effect; and each "significant subsidiary" (as such term is defined in Rule 1-02 of Regulation S-X promulgated by the Commission) of the Company has been duly organized and is validly existing as a corporation, limited liability company or other entity in good standing under the laws of its jurisdiction of organization and each has been duly qualified as a foreign entity for the transaction of business and is in good standing under the laws of each other jurisdiction in which it owns or leases properties, or conducts any business so as to require such qualification, other than any failure to be so qualified and in good standing as a foreign entity that would reasonably be expected to have a Material Adverse Effect.

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

(j) The Placement Shares to be issued and sold by the Company have been duly authorized and, when issued and delivered against payment therefore in accordance with the terms of this Agreement, will be validly issued, fully paid and non-assessable, and conform to the description thereof contained in the Prospectus.

(k) The compliance by the Company with this Agreement and the consummation of the transactions herein contemplated will not (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Company or any of its significant subsidiaries is a party or by which the Company or any of its significant subsidiaries is bound or to which any of the property or assets of the Company or any of its significant subsidiaries is subject, (ii) result in any violation of the provisions of the Articles of Incorporation or By-laws of the Company, or (iii) result in any violation of any statute or any order, rule or regulation of any court or governmental agency or body having jurisdiction over the Company or any of its significant subsidiaries, except in the case of clauses (i) and (iii) as would not reasonably be expected to have a Material Adverse Effect; and no consent, approval, authorization, order, registration or qualification of or with any such court or governmental agency or body is required for the consummation by the Company of the transactions contemplated by this Agreement, except such as have been obtained under the Securities Act and such consents, approvals, authorizations, orders, registrations or qualifications as may be required under state securities or Blue Sky laws in connection with the sale of the Placement Shares by the Agents.

(l) Neither the Company nor any of its significant subsidiaries is (a) in violation of its Articles of Incorporation, By-laws or similar organizational documents or (b) in default in the performance or observance of any material obligation, agreement, covenant or condition contained in any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which it is a party or by which it or any of its properties may be bound, which, in the case of this clause (b) would reasonably be expected to have a Material Adverse Effect.

(m) The statements set forth in the Prospectus under the caption “Description of Capital Stock,” insofar as they purport to constitute a summary of the terms of the Placement Shares, and under the caption “Plan of Distribution,” insofar as they purport to describe the provisions of the laws and documents referred to therein, are accurate, complete and fair.

(n) Other than as set forth in the Prospectus, there are no legal or governmental proceedings pending to which the Company or any of its subsidiaries is a party or of which any property of the Company or any of its subsidiaries is the subject which, if determined adversely to the Company or any of its subsidiaries, would individually or in the aggregate have a material adverse effect on the general affairs, management, shareholders’ equity, current or future consolidated financial position or results of operations of the Company and its subsidiaries, taken as a whole (a “**Material Adverse Effect**”); and, to the best of the Company’s knowledge, no such proceedings are threatened or, to the knowledge of the Company, contemplated by governmental authorities or by others.

(o) The Company is not and, after giving effect to the offering and sale of the Placement Shares and the application of proceeds thereof as described in the Prospectus, will not be an “investment company,” as such term is defined in the Investment Company Act of 1940, as amended (the “**Investment Company Act**”).

(p) (A) (i) At the time of filing the Registration Statement, (ii) at the time of the most recent amendment thereto for the purposes of complying with Section 10(a)(3) of the Securities Act (whether such amendment was by post-effective amendment, incorporated report filed pursuant to Section 13 or 15(d) of the Exchange Act or form of prospectus), (iii) at the time the Company or any person acting on its behalf (within the meaning, for this clause only, of Rule 163(c) under the Securities Act) made any offer relating to the Placement Shares in reliance on the exemption of Rule 163 under the Securities Act and (iv) as of the date hereof, the Company was a “well-known seasoned issuer” as defined in Rule 405 under the Securities Act; and (B) at the earliest time after the filing of the Registration Statement that the Company or another offering participant made a bona fide offer (within the meaning of Rule 164(h)(2) under the Securities Act) of the Placement Shares, the Company was not an “ineligible issuer” as defined in Rule 405 under the Securities Act.

(q) KPMG LLP, who have certified certain financial statements of the Company and its subsidiaries, and have audited the Company’s internal control over financial reporting and management’s assessment thereof, are independent public accountants as required by the Securities Act.

(r) The Company maintains a system of internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that complies with the requirements of the Exchange Act and has been designed by the Company’s principal executive officer and principal financial officer, or under their 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. The Company’s internal control over financial reporting was effective as of the most recent evaluation by the Company’s management pursuant to Rule 13(a)-15(c), and, except as set forth in the Prospectus, as of the date of the Company’s management’s most recent evaluation pursuant to Rule 13(a)-15(d), there had been no changes in the Company’s internal control over financial reporting in the quarter to which such evaluation related that had materially affected, or were reasonably likely to materially affect, the Company’s internal control over financial reporting. The Company is not aware of any material weaknesses in its internal control over financial reporting.

(s) Since the date of the latest audited financial statements included or incorporated by reference in the Prospectus, there has been no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

(t) The Company maintains disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Exchange Act) that comply with the requirements of the Exchange Act; such disclosure controls and procedures have been designed to ensure that material information relating to the Company and its subsidiaries is made known to the Company's principal executive officer and principal financial officer by others within those entities; and such disclosure controls and procedures were effective as the most recent evaluation by the Company's management pursuant to Rule 13a-15(b).

(u) Since the date of the latest audited financial statements included or incorporated by reference in the Prospectus, there has been no change in the Company's disclosure controls and procedures that has materially affected, or is reasonably likely to materially affect, the Company's disclosure controls and procedures.

(v) This Agreement has been duly authorized, executed and delivered by the Company.

(w) Neither the Company nor any of its subsidiaries nor, to the knowledge of the Company, any director, director nominee, officer, agent, employee, affiliate or other person acting on behalf of the Company or any of its subsidiaries, has taken any action, directly or indirectly, that would result in a violation by such persons of (i) the Foreign Corrupt Practices Act of 1977, as amended, and the rules and regulations thereunder (the "FCPA"), including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in the FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA, or (ii) the Bribery Act 2010 of the United Kingdom; and the Company, its subsidiaries and, to the knowledge of the Company, its affiliates have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

(x) The operations of the Company and its subsidiaries are and have been conducted at all times in compliance with the requirements of applicable anti-money laundering laws, including, but not limited to, the Bank Secrecy Act of 1970, as amended by the USA PATRIOT Act of 2001, and the rules and regulations promulgated thereunder, and the anti-money laundering laws of the various jurisdictions in which the Company and its subsidiaries conduct business (collectively, the "**Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(y) None of the Company, any of its subsidiaries or, to the knowledge of the Company, any director, officer, agent, employee or affiliate of the Company or any of its subsidiaries is currently the subject or the target of any sanctions administered or enforced by the U.S. Government, including, without limitation, the Office of Foreign Assets Control of the U.S. Department of the Treasury (“**OFAC**”), the United Nations Security Council, the European Union, Her Majesty’s Treasury, or other relevant sanctions authority (collectively, “**Sanctions**”), and the Company will not directly or indirectly use the proceeds of the offering of the Placement Shares hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity (i) to fund or facilitate any activities of or business with any person, or in any country or territory, that, at the time of such funding, is the subject or the target of Sanctions or (ii) in any other manner that will result in a violation by any person (including any person participating in the transaction, whether as agent, advisor, investor or otherwise) of Sanctions.

(z) Except as would not reasonably be expected to have a Material Adverse Effect or except as described in the Prospectus, each of the Company and its subsidiaries owns or possesses, or can acquire on reasonable terms, all material patents, patent applications, trademarks, service marks, trade names, licenses, copyrights and proprietary or other confidential information currently employed by it in connection with its business and neither the Company nor any such subsidiary has received written notice of or conflict with asserted rights of any third party with respect to any of the foregoing.

(aa) Except as described in the Prospectus, neither the Company nor any of its subsidiaries is in violation of any federal or state law or regulation relating to occupational safety and health or to the storage, handling or transportation of hazardous or toxic material and the Company and its subsidiaries have received all permits, licenses or other approvals required of them under applicable federal and state occupational safety and health and environmental laws and regulations to conduct their respective businesses, and the Company and each such subsidiary is in compliance with all terms and conditions of any such permit, license or approval, except any such violation of law or regulation, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals that would not reasonably be expected to have a Material Adverse Effect.

(bb) Except as described in the Prospectus, there is no claim or environmental remediation project pending or, to the knowledge of the Company, threatened under any Environmental Law (as defined below) against the Company or its subsidiaries that would reasonably be expected to have a Material Adverse Effect. The term “**Environmental Law**” means any federal, state, local or foreign law, statute, regulation, binding ordinance, order, judgment, decree or rule (including rule of common law) now in effect concerning or governing pollution, or actual or alleged exposure to, hazardous or toxic materials, substances or wastes, including but not limited to, asbestos or asbestos-containing materials.

(cc) Except as described in the Prospectus, no material labor dispute with the employees of the Company or any of its subsidiaries exists, or, to the knowledge of the Company, is imminent.

(dd) Except as described in the Prospectus, the Company and its subsidiaries possess all certificates, authorizations and permits issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, and neither the Company nor any of its subsidiaries has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding would reasonably be expected to have a Material Adverse Effect.

(ee) Except as described in the Prospectus, the Company and each of its subsidiaries have filed all material federal, state, local and foreign tax returns required to be filed through the date of this Agreement or have requested extensions thereof and have paid all taxes required to be paid (except for taxes currently being contested in good faith by appropriate proceedings and for which adequate reserves have been established in accordance with U.S. GAAP in the financial statements of the Company), and there is no tax deficiency that has been, or would reasonably be expected to be, asserted against the Company or any of its subsidiaries or any of their properties or assets which would reasonably be expected to have a Material Adverse Effect.

(ff) Nothing has come to the attention of the Company that has caused the Company to believe that the statistical and market-related data included in each of the Registration Statement and the Prospectus is not based on or derived from sources that are reliable and accurate in all material respects.

(gg) Except in each case for any such matter as would not reasonably be expected to have a Material Adverse Effect, (i) each employee benefit plan (“**Plan**”), within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended (“**ERISA**”) (other than a “multiemployer plan” as defined in Section 4001(a)(3) of ERISA (a “**Multiemployer Plan**”)), for which the Company or its subsidiaries would have any liability has been maintained in compliance with its terms and the requirements of any applicable statutes, orders, rules and regulations, including but not limited to, ERISA and the Internal Revenue Code of 1986, as amended (the “**Code**”); (ii) no prohibited transaction, within the meaning of Section 406 of ERISA or Section 4975 of the Code, has occurred with respect to any Plan excluding transactions effected pursuant to a statutory or administrative exemption; (iii) for each Plan that is subject to the funding rules of Section 412 of the Code or Section 302 of ERISA, the minimum funding standard of Section 412 of the Code or Section 302 of ERISA, as applicable, has been satisfied (without taking into account any waiver thereof or extension of any amortization period) (iv) no “reportable event” (within the meaning of Section 4043(c) of ERISA) has occurred or is reasonably expected to occur with respect to a Plan; (v) neither the Company nor any member of its “**Controlled Group**” (defined as any organization which is a member of a controlled group of corporations within the meaning of Section 414 of the Code) has incurred, nor reasonably expects to incur, any liability under Title IV of ERISA (other than contributions to the Plan or premiums to the Pension Benefit Guaranty Corporation (the “**PBGC**”), in the ordinary course and without default) in respect of a Plan (including a Multiemployer Plan); and (vi) there is no pending audit or, to the Company’s knowledge, investigation by the Internal Revenue Service, the U.S. Department of Labor, the PBGC or any other governmental agency or any foreign regulatory agency with respect to any Plan.

(hh) Except as described in the Prospectus or as would not have a Material Adverse Effect, the Company and its subsidiaries collectively carry insurance (including self-insurance, if any) in such amounts and covering such risks as in the Company's reasonable determination is adequate for the conduct of its business and the value of its properties.

(ii) The interactive data in eXtensible Business Reporting Language included in the Prospectus fairly presents the information called for in all material respects and has been prepared in accordance with the Commission's rules and guidelines applicable thereto.

(jj) The Common Stock is an "actively-traded security" exempted from the requirements of Rule 101 of Regulation M by subsection (c)(1) of such rule.

(kk) The Company and its subsidiaries' information technology assets and equipment, computers, systems, networks, hardware, software, websites, applications, and databases (collectively, "**IT Systems**") are adequate for, and operate and perform in all material respects as required in connection with the operation of the business of the Company and its subsidiaries as currently conducted, and, to the Company's knowledge, are free and clear of all material bugs, errors, defects, Trojan horses, time bombs, malware and other corruptants. The Company and its subsidiaries have implemented and maintained commercially reasonable controls, policies, procedures, and safeguards to maintain and protect their material confidential information and the integrity, continuous operation, redundancy and security of all IT Systems and data, including "Personal Data," used in connection with their businesses (to the extent such Personal Data is required to be kept in confidence under applicable law). "**Personal Data**" means (i) a natural person's name, street address, telephone number, e-mail address, photograph, social security number or tax identification number, driver's license number, passport number, credit card number, bank information, or customer or account number; (ii) any information which would qualify as "personally identifying information" under the Federal Trade Commission Act, as amended; and (iii) any information which would qualify as "protected health information" under the Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act. To the Company's knowledge there have been no material breaches, violations, outages or unauthorized uses of the IT Systems or Personal Data or accesses to the same. The Company and its subsidiaries are presently in compliance in all material respects with all applicable laws or statutes and all applicable judgments, orders, rules and regulations of any court or arbitrator or governmental or regulatory authority, internal policies and contractual obligations relating to the privacy and security of IT Systems and Personal Data and to the protection of such IT Systems and Personal Data from unauthorized use, access, misappropriation or modification.

Any certificate signed by any officer of the Company delivered to the Agents or to counsel for the Agents pursuant to or in connection with this Agreement shall be deemed a representation and warranty by the Company to the Agents as to the matters covered thereby as of the date or dates indicated in such certificate.

6. Sale and Delivery; Settlement.

(a) *Sale of Placement Shares.* On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, upon the Designated Agent's acceptance of the terms of a Placement Notice, and unless the sale of the Placement Shares described therein has been declined, suspended, or otherwise terminated in accordance with the terms of this Agreement, the Designated Agent, for the period specified in the Placement Notice, will use its commercially reasonable efforts consistent with its normal trading and sales practices to sell such Placement Shares up to the amount specified, and otherwise in accordance with the terms of such Placement Notice. The Company acknowledges and agrees that (i) there can be no assurance that the Designated Agent will be successful in selling Placement Shares, (ii) the Designated Agent will not incur any liability or obligation to the Company or any other person or entity if it does not sell Placement Shares for any reason other than a failure by the Designated Agent to use its commercially reasonable efforts consistent with its normal trading and sales practices to sell such Placement Shares as required under this Agreement and (iii) the Designated Agent shall not be under any obligation to purchase Placement Shares on a principal basis pursuant to this Agreement, except as otherwise agreed by the Designated Agent in a Terms Agreement.

(b) *Settlement of Placement Shares.* Unless otherwise specified in the applicable Placement Notice, settlement for sales of Placement Shares will occur on the second (2nd) Trading Day (or such earlier day as is then industry practice for regular-way trading) following the date on which such sales are made (each, a "**Settlement Date**"). The amount of proceeds to be delivered to the Company on a Settlement Date against receipt of the Placement Shares sold (the "**Net Proceeds**") will be equal to the aggregate sales price received by the Designated Agent at which such Placement Shares were sold, after deduction of (i) the Designated Agent's commission, discount or other compensation for such sale payable by the Company pursuant to Section 2 hereof and (ii) any transaction fees imposed by any governmental or self-regulatory organization in respect of such sales.

(c) *Delivery of Placement Shares.* On or before each Settlement Date, the Company will, or will cause its transfer agent to, electronically transfer the Placement Shares being sold, which will be in book-entry form, by crediting, or causing to be credited, the Designated Agent's or its designee's account at the Depository Trust Company through its Deposit and Withdrawal at Custodian System or by such other means of delivery as may be mutually agreed upon by the parties hereto which Placement Shares in all cases shall be freely tradable, transferable, registered shares in good deliverable form. On each Settlement Date, the Designated Agent acting under the applicable Placement Notice will deliver the related Net Proceeds in same-day funds to an account designated by the Company on, or prior to, the Settlement Date. The Company agrees that if the Company, or its transfer agent (if applicable), defaults in its obligation to deliver Placement Shares on a Settlement Date, the Company will, in addition to, and in no way limiting, the rights and obligations set forth in Section 9(a) (Indemnification and Contribution), (i) hold the Designated Agent harmless against any loss, claim, damage, or expense (including reasonable legal fees and expenses), as incurred, arising out of or in connection with such default by the Company and (ii) pay to the Designated Agent any commission, discount, or other compensation to which it would otherwise have been entitled absent such default.

(d) *Limitations on Offering Size.* Under no circumstances shall the Company cause or request the offer or sale of any Placement Shares if, after giving effect to the sale of such Placement Shares, the number of Placement Shares sold pursuant to this Agreement or any Terms Agreement would exceed the lesser of (A) together with all sales of Placement Shares under this Agreement and any Terms Agreement, the Maximum Amount, (B) the dollar amount of securities available for offer and sale under the currently effective Registration Statement and (C) the number of shares of Common Stock authorized by the Company's board of directors to be issued and sold from time to time under this Agreement (if different than the Maximum Amount, the Company will notify the Designated Agent in writing of the number of shares of Common Stock so authorized). Under no circumstances shall the Company cause or request the offer or sale of any Placement Shares at a price lower than the minimum price authorized from time to time by the Company's board of directors, duly authorized committee thereof or a duly authorized executive committee, and notified to the Designated Agent in writing.

(e) *No Obligation to Purchase Placement Shares as Principal.* Neither Agent shall have any obligation to purchase Placement Shares as principal, whether from the Company or otherwise, unless the Company and such Agent agree as set forth in a Terms Agreement. An Agent's commitment to purchase Placement Shares from the Company as principal shall be deemed to have been made on the basis of the accuracy of the representations and warranties of the Company and performance by the Company of its covenants and other obligations herein contained, and shall be subject to the applicable terms and conditions herein set forth. With respect to a Terms Agreement, the applicable Agent shall specify the requirements, if any, for the officers' certificate, opinions and letters of counsel and accountants' letter pursuant to Section 7(l), (m) and (n), respectively, hereof in respect of such Terms Agreement. In the event of a conflict between the terms of this Agreement and a Terms Agreement, the terms of such Terms Agreement shall control. For the avoidance of doubt, nothing contained in this Section 6(e) shall limit or modify the Agents' obligations under Section 6(a).

7. Covenants of the Company.

The Company covenants and agrees with the Agents as follows:

(a) *Filings, Amendments and Notices.* To prepare a supplement to the Prospectus in a form approved by the Agents, acting reasonably, and to file such supplement pursuant to Rule 424(b) not later than the Commission's close of business on the date of the execution and delivery of this Agreement. During any period when the delivery of a prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Securities Act) is required in connection with the offering or sale of the Placement Shares (the "**Prospectus Delivery Period**"), to make no amendment or any supplement to the Registration Statement or the Prospectus (other than a prospectus supplement relating solely to an offering of securities other than the Placement Shares) prior to any Settlement Date, which amendment or supplement shall be disapproved by the Agents,

acting reasonably, promptly after reasonable notice thereof; provided, that ordinary course filings of the Company under the Exchange Act shall not require provision to the Agents prior to filing, and to advise the Agents, promptly after it receives notice thereof, of the time when any amendment to the Registration Statement has been filed or becomes effective or any amendment or supplement to the Prospectus has been filed; to file promptly all other material required to be filed by the Company with the Commission pursuant to Rule 433(d) under the Securities Act; to file promptly all reports and any definitive proxy or information statements required to be filed by the Company with the Commission pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act during the Prospectus Delivery Period; during the Prospectus Delivery Period, to advise the Agents, promptly after it receives notice thereof, of the issuance by the Commission of any stop order or of any order preventing or suspending the use of the Prospectus, of any notice of objection of the Commission to the use of the Registration Statement pursuant to Rule 401(g)(2) under the Securities Act, of the suspension of the qualification of the Placement Shares for offering or sale in any jurisdiction, of the initiation or threatening of any proceeding for any such purpose, or of any request by the Commission for the amending or supplementing of the Registration Statement or the Prospectus or for additional information; and, in the event of the issuance of any stop order or of any order preventing or suspending the use of the Prospectus or suspending any such qualification, subject to the Company's right to terminate this Agreement pursuant to Section 11, to promptly use its reasonable best efforts to obtain the withdrawal of such order; and in the event of any such issuance of a notice of objection, promptly to take such reasonable steps as may be necessary to permit offers and sales of the Placement Shares by the Agents, which may include, without limitation, amending the Registration Statement or filing a new registration statement, at the Company's expense (references herein to the Registration Statement shall include any such amendment or new registration statement).

(b) *Delivery of Registration Statement and Subsequent Changes.* During the Prospectus Delivery Period, the Company will make available to the Agents, as soon as practicable after the execution of this Agreement, and thereafter from time to time furnish to the Agents, copies of the Prospectus as then amended or supplemented in such quantities and at such locations as the Agents may reasonably request for the purposes contemplated by the Securities Act. During the Prospectus Delivery Period, if (i) any event shall have occurred as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made when such Prospectus (or in lieu thereof, the notice referred to in Rule 173(a) under the Securities Act) is delivered, not misleading, or, (ii) for any other reason it shall be necessary during such same period to amend or supplement the Prospectus, to file any post-effective amendment to the Registration Statement or to file under the Exchange Act any document incorporated by reference in the Prospectus in order to comply with the Securities Act or the Exchange Act, the Company will promptly notify the Designated Agent to suspend the offering of Placement Shares during such period, and the Company will promptly amend or supplement the Registration Statement or Prospectus (at the expense of the Company) so as to correct such statement or omission or effect such compliance and to prepare and furnish without charge to the Agents and to any dealer in securities as many written and electronic copies as the Agents may from time to time reasonably request of an amended Prospectus or a supplement to the Prospectus which will correct such statement or omission or effect such compliance. Notwithstanding the foregoing, the Company will not be required to furnish any document (other than the Prospectus) if such document is available on EDGAR.

(c) *Blue Sky*. The Company will promptly furnish such information or to take such action as the Agents may reasonably request and otherwise to qualify the Placement Shares for offer and sale under the securities or “blue sky” laws of such jurisdictions (domestic and foreign) as the Agents shall reasonably request, and to comply with such laws so as to permit the continuance of sales and dealings therein in such jurisdictions for as long as may be necessary to complete the distribution of the Placement Shares; provided, however, that the Company shall not be required to qualify as a foreign corporation or to file a consent to service of process in any jurisdiction in which it is not so qualified or to subject itself to taxation in respect of doing business in any jurisdiction in which it is not otherwise so subject; and to promptly advise the Agents of the receipt by the Company of any notification with respect to the suspension of the qualification of the Placement Shares for offer or sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose.

(d) *Earnings Statement*. The Company will make generally available to its security holders as soon as practicable, but in any event not later than 16 months after the effective date of the Registration Statement (as defined in Rule 158(c) under the Securities Act), an earnings statement of the Company and its subsidiaries (which need not be audited) complying with Section 11(a) of the Securities Act (including, at the option of the Company, under Rule 158). For the avoidance of doubt, the Company’s compliance with the reporting requirements of the Exchange Act shall be deemed to satisfy the requirements of this Section 7(d).

(e) *Expenses*. Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, the Company agrees to pay or cause to be paid all expenses incident to the performance of its obligations under this Agreement, including: (i) the fees, disbursements and expenses of the Company’s counsel, accountants and other advisors in connection with the registration and delivery of the Placement Shares under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, the Prospectus, and amendments, supplements and exhibits to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Agents and dealers, in the quantities hereinabove specified; (ii) all costs and expenses related to the transfer and delivery of the Placement Shares to the Agents, including any transfer or other taxes payable thereon; (iii) the cost of printing and producing any securities or blue sky memorandum in connection with the offer and sale of the Placement Shares under the securities laws of the jurisdictions in which the Placement Shares may be offered or sold and all expenses in connection with the qualification of the Placement Shares for offer and sale under such securities laws as provided in Section 7(c) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Agents in connection with such qualification and in connection with the securities or blue sky memorandum;

(iv) all filing fees and the reasonable fees and disbursements of counsel to the Agents in connection with the review and qualification of the offering of the Placement Shares by FINRA; (v) all costs and expenses incident to listing the Placement Shares on the NYSE; (vi) the costs and charges of any transfer agent, registrar or depository; (vii) the document production charges and expenses associated with preparing, printing and delivering to the Agents this Agreement; (viii) all expenses in connection with any offer and sale of the Placement Shares outside of the United States, including filing fees and the reasonable fees and disbursements of counsel for the Agents in connection with such offers and sales outside of the United States; and (ix) all other costs and expenses incident to the performance of the obligations of the Company hereunder for which provision is not otherwise made in this Section 7(e); *provided, however*, that the liability of the Company for fees and disbursements of counsel for the Agents pursuant to clauses (iii), (iv) and (viii) shall not exceed \$10,000 in the aggregate; *provided, further*, that notwithstanding the foregoing, if Placement Shares having an aggregate offering price of \$15,000,000 or more have not been offered and sold under this Agreement by August 6, 2023 (or such earlier date at which the Company terminates this Agreement) (the “**Determination Date**”), the Company shall reimburse the Agents for their reasonable and documented out-of-pocket expenses, including the reasonable fees and disbursements of counsel incurred by the Agents in connection with the transactions contemplated by this Agreement; *provided, however*, that such expenses shall not exceed an aggregate amount of \$62,500; *provided, further, however*, that the Company shall have no obligation in respect of such reimbursement to an Agent following any termination date, if such Agent shall have terminated this Agreement pursuant to clause (ii) of Section 11(a). Such expenses shall be due and payable by the Company within five (5) Business Days following the date on which the Agents provide documentation of such fees.

(f) *Filing Fees*. The Company agrees to pay the required Commission filing fees relating to the Placement Shares within the time required by Rule 456(b)(1) under the Securities Act without regard to the proviso therein and otherwise in accordance with Rules 456(b) and 457(r) under the Securities Act;

(g) *Use of Proceeds*. The Company will use the Net Proceeds as described in the Prospectus in the section entitled “Use of Proceeds.”

(h) *Notice of Other Sales*. During the pendency of any Placement Notice given hereunder, the Company shall provide the Designated Agent with one day’s prior written notice, or, in the event that the average daily trading volume (as defined under Regulation M) of the Common Stock falls below \$100,000, five days’ written notice, before it offers to sell, contracts to sell, sells, grants any option to sell or otherwise disposes of any shares of Common Stock (other than Placement Shares offered pursuant to the provisions of this Agreement) or securities convertible into or exchangeable for Common Stock, warrants or any rights to purchase or acquire Common Stock; *provided* that such notice shall not be required in connection with the (i) issuance, grant or sale of Common Stock, options to purchase shares of Common Stock or Common Stock issuable upon the exercise of options or other equity awards pursuant to any employee or director stock option or benefits plan or stock purchase plan, (ii) the issuance or sale of shares of Common Stock or pursuant to any dividend reinvestment plan that the Company may adopt from time to time, or (iii) the issuance of shares of Common Stock upon the exercise of any outstanding warrants, options or other rights in effect or outstanding as of the date of such Placement Notice as disclosed in filings by the Company available on EDGAR on such date.

(i) *Change of Circumstances.* The Company will, at any time during the pendency of a Placement Notice, advise the Agents promptly after it shall have received notice or obtained knowledge thereof, of any information or fact that would alter or affect in any material respect any certificate, letter or other document required to be provided to the Agents pursuant to this Agreement.

(j) *Due Diligence Cooperation.* At each Representation Date, and at such other times as may be reasonably requested by an Agent in connection with an offering of Placement Shares, the Company will cooperate with any reasonable due diligence review conducted by the Agents or their representatives or agents in connection with the transactions contemplated hereby, including, without limitation, providing information and making available documents and senior corporate officers, during regular business hours and at the Company's principal offices, as the Agents may reasonably request.

(k) *Required Filings Relating to Placement of Placement Shares.* The Company will disclose in its quarterly reports on Form 10-Q, in its annual report on Form 10-K and/or, in the discretion of the Company, in a current report on Form 8-K the amount of Placement Shares, if any, sold through the Agents during the applicable period, together with any other information that the Company reasonably believes is required to comply with the Securities Act and the Exchange Act.

(l) *Representation Dates; Certificate.* Each time the Company: (i) files the Prospectus relating to the Placement Shares or amends or supplements (other than a prospectus supplement relating solely to an offering of securities other than the Placement Shares) the Registration Statement or the Prospectus relating to the Placement Shares by means of a post-effective amendment, sticker, or supplement but not by means of incorporation of documents by reference into the Registration Statement or the Prospectus relating to the Placement Shares; (ii) files an annual report on Form 10-K under the Exchange Act (including any Form 10-K/A containing amended financial information or a material amendment to the previously filed Form 10-K); (iii) files a quarterly report on Form 10-Q under the Exchange Act or (iv) files a current report on Form 8-K containing amended financial information (other than information "furnished" pursuant to Items 2.02, 7.01 or 9.01 of Form 8-K under the Exchange Act) (each date of filing of one or more of the documents referred to in clauses (i) through (iv) shall be a "**Representation Date**"); the Company shall furnish the Agents with a certificate, in the form attached hereto as Exhibit B within three (3) Trading Days following any Representation Date, unless waived. The requirement to provide a certificate under this Section 7(l) shall be waived for any Representation Date occurring at a time at which no Placement Notice is pending or a suspension is in effect in accordance with Section 4, which waiver shall continue until the earlier to occur of the date the Company delivers a Placement Notice hereunder (which for such calendar quarter shall be considered a Representation Date) and the next occurring Representation Date. Notwithstanding the

foregoing, if the Company subsequently decides to sell Placement Shares following a Representation Date when the Company relied on such waiver and did not provide the Agents with a certificate under this Section 7(l), then at such time as the Company delivers the Placement Notice, and in any event prior to the Designated Agent's sale of any Placement Shares, the Company shall provide the Agents with a certificate, in the form attached hereto as Exhibit B, dated the date of the Placement Notice.

(m) *Legal Opinion*. On the date of this Agreement, within three (3) Trading Days after each Representation Date with respect to which the Company is obligated to deliver a certificate in the form attached hereto as Exhibit B for which no waiver is applicable, and the date of the Placement Notice if such Placement Notice is delivered during a period for which the waiver described in Section 7(l) was in effect, unless the Agents agree otherwise, the Company shall cause to be furnished to the Agents a written opinion and customary negative assurance letter of Greenberg Traurig P.A., counsel for the Company ("**Company Counsel**"), dated the date such opinion letter and negative assurance letter are required to be delivered, in form and substance reasonably satisfactory to the Agents, modified, as necessary, to relate to the Registration Statement and the Prospectus as then amended or supplemented. In lieu of the opinion and negative assurance letter of Company Counsel required to be furnished to the Agents pursuant to this Section 7(m) on subsequent Representation Dates, Company Counsel may furnish the Agents with a letter (a "**Reliance Letter**") to the effect that the Agents may rely on a prior opinion delivered under this Section 7(m) to the same extent as if it were dated the date of such Reliance Letter (except that statements in such prior opinion and negative assurance letter shall be deemed to relate to the Registration Statement and the Prospectus as then amended or supplemented).

(n) *Comfort Letters*. On the date of this Agreement, the Company shall cause its independent accountants (and/or any other independent accountants whose report is included in the Registration Statement or the Prospectus), to furnish the Agents with a letter (the "**Initial Comfort Letter**") in form and substance reasonably satisfactory to the Agents (i) confirming that they are an independent registered public accounting firm within the meaning of the Securities Act, the Exchange Act, and the PCAOB, and (ii) stating, as of such date, the conclusions and findings of such firm with respect to the financial information and other matters ordinarily covered by accountants' "comfort letters" to underwriters in connection with registered public offerings. Within three (3) Trading Days after each Representation Date with respect to which the Company is obligated to deliver a certificate in the form attached hereto as Exhibit B for which no waiver is applicable, the Company shall cause such independent accountants to provide a supplemental comfort letter (a "**Supplemental Comfort Letter**") to the Agents which shall state that such auditors have followed such procedures as they deemed necessary to determine that no changes or modifications to the Initial Comfort Letter are necessary except as set forth in such Supplemental Comfort Letter, together with a customary "circle up" of the relevant sections of any Form 10-Q, Form 10-K or other documents filed by the Company with the Commission since the Initial Comfort Letter and not covered by a prior Supplemental Comfort Letter and incorporated or deemed to be incorporated by reference in the Registration Statement; *provided, however*, that such circle up will not be required for any Form 10-Q not otherwise covered if the Company has filed a Form 10-K subsequent to the filing of such Form 10-Q.

(o) *Market Activities*. The Company will not, directly or indirectly, (i) take any action designed to cause or result in, or that constitutes or might reasonably be expected to constitute, the stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Placement Shares or (ii) sell, bid for, or purchase the Placement Shares to be issued and sold pursuant to this Agreement, or pay anyone any compensation for soliciting purchases of the Placement Shares to be issued and sold pursuant to this Agreement other than the Agents; *provided, however*, the Company may bid for and purchase Common Stock in accordance with Rule 10b-18 under the Exchange Act to the extent permissible under Regulation M.

(p) *Filings with the NYSE*. The Company will timely file with the NYSE (and/or the Company's then principal trading market for its Common Stock) all material documents and notices required by the NYSE (or such other principal trading market) of companies that have or will issue securities that are traded on the NYSE (or such other principal trading market).

(q) *Securities Act and Exchange Act*. The Company will use its commercially reasonable efforts to comply with all requirements imposed upon it by the Securities Act and the Exchange Act as from time to time in force, so far as necessary to permit the continuance of sales of, or dealings in, the Placement Shares as contemplated by the provisions hereof and the Prospectus.

(r) *No Offer to Sell*. The Company represents and agrees that it has not made and, without the prior consent of the Agents, will not make any offer relating to the Placement Shares that would constitute a "free writing prospectus" as defined in Rule 405 under the Securities Act, and the Company has complied and will comply with the requirements of Rule 433 applicable to any Issuer Free Writing Prospectus, including timely filing with the Commission or retention where required and legending.

(s) *No Other Prospectuses*. The Company will not, at any time at or after the execution of this Agreement, offer or sell any Placement Shares by means of any "prospectus" (within the meaning of the Securities Act) or use any "prospectus" (within the meaning of the Securities Act) in connection with the offer or sale of the Placement Shares, except in each case other than the Prospectus.

(t) *Sarbanes-Oxley Act*. The Company will maintain and keep accurate books and records reflecting its assets and maintain internal accounting controls in a manner 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 and including those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit the preparation of the Company's consolidated financial statements in accordance

with generally accepted accounting principles, (iii) receipts and expenditures of the Company are being made only in accordance with management's and the Company's directors' authorization, and (iv) 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 its financial statements. The Company will maintain such controls and other procedures, including, without limitation, those required by Sections 302 and 906 of the Sarbanes-Oxley Act, and the applicable regulations thereunder that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms, including, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure and to ensure that material information relating to the Company is made known to them, particularly during the period in which such periodic reports are being prepared.

(u) *Transfer Agent*. The Company shall maintain, at its expense, a registrar and transfer agent for the Common Stock.

(v) *Listing*. The Company will use its best efforts to cause the Placement Shares to be listed on the NYSE and any other principal trading market for the Common Stock.

(w) *Available Shares*. The Company will ensure that there are at all times sufficient shares of Common Stock to provide for the issuance, free of any preemptive rights, out its authorized but unissued shares of Common Stock, of the Maximum Amount.

8. Conditions to the Agents' Obligations.

The obligations of the Agents hereunder with respect to a Placement Notice will be subject to the continuing accuracy and completeness of the representations and warranties made by the Company herein, to the due performance by the Company of its obligations hereunder and to the continuing satisfaction (or waiver by the Agents in their sole discretion) of the following additional conditions:

(a) *Registration Statement Effective, Filings Made*. The Registration Statement shall have become effective and shall be available for the sale of all Placement Shares contemplated to be issued by any Placement Notice; all filings with the Commission required by Rule 424(b) to have been filed prior to the issuance of any Placement Notice hereunder shall have been made within the applicable time period prescribed for such filing by the Securities Act and all material required to be filed by the Company pursuant to Rule 433(d) under the Securities Act shall have been filed with the Commission within the applicable time period prescribed for such filings by Rule 433.

(b) *No Material Notices or Events.* No stop order suspending the effectiveness of the Registration Statement or any part thereof shall have been issued and no proceeding for that purpose shall have been initiated or, threatened by the Commission and no notice of objection of the Commission to the use of the Registration Statement or any post-effective amendment thereto pursuant to Rule 401(g)(2) under the Securities Act shall have been received; no stop order suspending or preventing the use of the Base Prospectus, the Prospectus Supplement or any Issuer Free Writing Prospectus shall have been initiated or, threatened by the Commission; all requests for additional information on the part of the Commission or any other federal or state governmental authority shall have been complied with to the Agents' reasonable satisfaction; there shall have been no receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Placement Shares for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose; and there shall have been no occurrence of any event that makes any statement of material fact made in the Registration Statement or the Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue or that requires the making of any changes in the Registration Statement, the Prospectus or any document incorporated or deemed to be incorporated therein by reference so that, in the case of the Registration Statement, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading and that, in the case of the Prospectus, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(c) *Material Changes.* Neither the Company nor any of its subsidiaries shall have sustained since the date of the latest audited financial statements included or incorporated by reference in the Prospectus any change, or any development involving a prospective change, which, taken as a whole, would be reasonably expected to have a Material Adverse Effect.

(d) *Opinion of Company Counsel.* The Agents shall have received the opinion and negative assurance letter of Company Counsel required to be delivered pursuant to Section 7(m) on or before the date on which such delivery of such opinion and letter are required pursuant to Section 7(m).

(e) *Comfort Letters.* The Agents shall have received the Initial Comfort Letter and any update letters required to be delivered pursuant to Section 7(n) on or before the date on which such delivery of such letters is required pursuant to Section 7(n).

(f) *Representation Certificate.* The Agents shall have received the certificate required to be delivered pursuant to Section 7(l) on or before the date on which delivery of such certificate is required pursuant to Section 7(l).

(g) *Opinion of Counsel for Agents.* The Agents shall have received from Morrison & Foerster LLP, counsel for the Agents, such opinion or opinions, with respect to such matters as the Agents may reasonably require, and a customary negative assurance letter on or before the date hereof.

(h) *No Suspension.* Trading in the Common Stock shall not have been suspended on the NYSE.

(i) *Approval for Listing.* The Placement Shares shall either have been (i) approved for listing on the NYSE, subject only to notice of issuance, or (ii) the Company shall have filed an application for listing of the Placement Shares on the NYSE at, or prior to, the issuance of any Placement Notice.

(j) *Termination of Agreement.* If any condition specified in this Section 8, shall not have been fulfilled when and as required to be fulfilled this Agreement may be terminated by the Agents, in their sole discretion, or by either Agent in its sole discretion as to itself, by notice to the Company, and such termination shall be without liability of any party to any other party except as provided in Section 7(e). Notice of such cancellation shall be given in writing and addressed to each of the individuals of the Company set forth on Schedule 2.

(k) *No Termination Event.* This Agreement shall not have been terminated, and no notice of termination shall have been delivered, pursuant to Section 11.

9. Indemnification and Contribution.

(a) *Company Indemnification.* The Company will indemnify and hold harmless the Agents, each officer and director of the Agents, each person, if any, who controls the Agents within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act and each broker-dealer affiliate of the Agents, against any losses, claims, damages or liabilities, joint or several, to which the Agents may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, the Base Prospectus, the Prospectus Supplement, the Prospectus, or any amendment or supplement thereto, any Issuer Free Writing Prospectus or any “issuer information” filed or required to be filed pursuant to Rule 433(d) under the Securities Act or arise out of or based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Agents for documented legal or other expenses reasonably incurred by the Agents in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company shall not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Registration Statement, the Base Prospectus, the Prospectus Supplement, the Prospectus, or any amendment or supplement thereto or any Issuer Free Writing Prospectus in reliance upon and in conformity with written information furnished to the Company by the Agents expressly for use therein, it being understood and agreed that the only such information furnished by the Agents as aforesaid consists of the third paragraph of the Plan of Distribution section of the Prospectus Supplement (collectively, the “**Agent Information**”).

(b) *Agent Indemnification.* The Agents, severally and not jointly, will indemnify and hold harmless the Company and the directors and officers of the Company, and each person who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act against any losses, claims, damages or liabilities to which the Company may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in Registration Statement, the Base Prospectus, the Prospectus Supplement, the Prospectus, or any amendment or supplement thereto or any Issuer Free Writing Prospectus, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in Registration Statement, the Base Prospectus, the Prospectus Supplement, the Prospectus, or any amendment or supplement thereto or any Issuer Free Writing Prospectus, in reliance upon and in conformity with the Agent Information; and will reimburse the Company for documented legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) *Procedure.* Promptly after receipt by an indemnified party under subsection (a), or (b) of this Section 9 of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection, except to the extent such indemnifying party is prejudiced by such failure. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party (who shall not except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there be a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of

which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (i) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (ii) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(d) *Contribution.* If the indemnification provided for in this Section 9 is unavailable to or insufficient to hold harmless an indemnified party under subsection (a) or (b) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Agents on the other from the offering of the Placement Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Agents on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the parties hereto shall be deemed to be in the same proportion as the total net proceeds from the sale of the Placement Shares (before deducting expenses) received by the Company bear to the total compensation received by the Agents from the sale of Placement Shares on behalf of the Company. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Agents on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Agents agree that it would not be just and equitable if contribution pursuant to this subsection (d) were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (d) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9, no Agent shall be required to contribute any amount in excess of the amount of the aggregate commissions received by such Agent under this Agreement. 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.

(e) The obligations under this Section 9 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified person at law or in equity.

(f) For purposes of clarity and without limitation to any provision of this Agreement, the obligations of the Agents under this Agreement are several and not joint.

10. Representations and Agreements to Survive Delivery.

All representations and warranties of the Company herein or in certificates delivered pursuant hereto shall survive, as of their respective dates, regardless of (i) any investigation made by or on behalf of the Agents, any controlling persons, or the Company (or any of their respective officers who sign the Registration Statement or any directors or controlling persons), (ii) delivery and acceptance of the Placement Shares and payment therefore or (iii) any termination of this Agreement.

11. Termination.

(a) *Termination; General.* The Agents, in their sole discretion, or either Agent in its sole discretion as to itself, may terminate this Agreement, by notice to the Company, as hereinafter specified at any time (i) upon the occurrence of the events described in Section 8(c) or (ii) should there have occurred (1) a suspension or material limitation in trading in securities generally on the NYSE; (2) a suspension or material limitation in trading in the Company's securities on the NYSE; (3) a general moratorium on commercial banking activities declared by either Federal or New York State authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (4) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war or (5) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified in clause (4) or (5) in the sole judgment of the Agents, makes it impractical or inadvisable to market the Placement Shares or to enforce contracts for the sale of the Placement Shares.

(b) *Termination by the Company.* The Company shall have the right to terminate this Agreement by giving notice as specified herein to the Agents.

(c) *Termination by the Agents.* In addition to the rights set forth in Section 11(a), the Agents, in their sole discretion, or either Agent in its sole discretion as to itself, shall have the right to terminate this Agreement by giving three (3) days' notice to the Company.

(d) *Automatic Termination.* Unless earlier terminated pursuant to this Section 11, this Agreement shall automatically terminate upon the issuance and sale of the Maximum Amount of Placement Shares through the Agents pursuant to this Agreement and any Terms Agreement.

(e) *Effectiveness of Termination.* Any termination of this Agreement shall be effective on the date specified in such notice of termination; *provided, however,* that such termination shall not be effective until the close of business on the date specified in such notice by the Agents or the Company, as the case may be. If such termination shall occur prior to the Settlement Date for any sale of Placement Shares, such Placement Shares shall settle in accordance with the provisions of this Agreement.

(f) *Survival.* The provisions of Sections 5, 7(e), 9, 10, 12(a), 12(e), 12(f) and 12(g) hereof and this Section 11(f) and the obligation herein to pay any discount, commission or other compensation accrued, but unpaid, shall survive any expiration or termination of this Agreement.

12. Miscellaneous.

(a) *Notices.* Except as otherwise set forth in this Agreement, all notices or other communications required or permitted to be given by any party to any other party pursuant to the terms of this Agreement shall be in writing and effective only on receipt, unless otherwise specified in this Agreement, and, if to the Agents, such notice shall be delivered, mailed or sent to the Agents at (i) Robert W. Baird & Co. Incorporated, 777 E. Wisconsin Avenue, Milwaukee, Wisconsin 53202, Attention: Syndicate Department (facsimile: (414) 298-7474), with a copy to the Legal Department and (ii) Goldman Sachs & Co. LLC, 200 West Street, New York, New York 10282, Attention: Registration Department (facsimile: (212) 902-9316) and if to the Company, such notice shall be delivered, mailed or sent to the Company at to the address of the Company set forth on the cover of the Registration Statement, Attention: Ana Menendez, Chief Financial Officer and Barry S. Logan, Executive Vice President.

Each party to this Agreement may change such address for notices by sending to the parties to this Agreement written notice of a new address for such purpose. Each such notice or other communication shall be deemed given (i) when delivered personally or by verifiable facsimile transmission (with an original to follow) on or before 4:30 p.m., Eastern time, on a Business Day (as hereinafter defined) or, if such day is not a Business Day, on the next succeeding Business Day, (ii) on the next Business Day after timely delivery to a nationally-recognized overnight courier and (iii) on the Business Day actually received if deposited in the U.S. mail (certified or registered mail, return receipt requested, postage prepaid). For purposes of this Agreement, "**Business Day**" shall mean any day on which the NYSE and commercial banks in the City of New York are open for business.

(b) *Successors and Assigns.* This Agreement shall inure to the benefit of and be binding upon the Company and the Agents and their respective successors and, to the extent provided by Section 9, the affiliates, controlling persons, officers and directors referred to in Section 9 hereof. References to any of the parties contained in this Agreement shall be deemed to include the successors and permitted assigns of such party. Nothing in this Agreement, express or implied, is intended to confer upon any person or entity, other than the parties hereto and their respective successors and permitted assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement, except as expressly provided in Section 9. No party may assign its rights or obligations under this Agreement without the prior written consent of the other party.

(c) *Adjustments for Stock Splits.* The parties acknowledge and agree that all share-related numbers contained in this Agreement shall be adjusted to take into account any stock split, stock dividend or similar event effected with respect to the Common Stock.

(d) *Entire Agreement; Amendment; Severability.* This Agreement (including all schedules and exhibits attached hereto and Placement Notices issued pursuant hereto) constitutes the entire agreement and supersedes all other prior and contemporaneous agreements and undertakings, both written and oral, among the parties hereto with regard to the subject matter hereof, including the Prior Agreement. Neither this Agreement nor any term hereof may be amended except pursuant to a written instrument executed by the Company and the Agents. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable as written by a court of competent jurisdiction, then such provision shall be given full force and effect to the fullest possible extent that it is valid, legal and enforceable, and the remainder of the terms and provisions herein shall be construed as if such invalid, illegal or unenforceable term or provision was not contained herein, but only to the extent that giving effect to such provision and the remainder of the terms and provisions hereof shall be in accordance with the intent of the parties as reflected in this Agreement.

(e) *Applicable Law; Process.* This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of New York without regard to the principles of conflicts of laws of any jurisdiction that would cause the application of the laws of any jurisdiction other than the laws of the State of New York. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law.

(f) *Waiver of Jury Trial.* EACH OF THE COMPANY AND EACH AGENT HEREBY IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY TRANSACTION CONTEMPLATED HEREBY.

(g) *Specified Courts.* Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby shall be instituted in (i) the federal courts of the United States of America located in the City and County of New York, Borough of Manhattan or (ii) the courts of the State of New York located in the City and County of New York, Borough of Manhattan (collectively, the “**Specified Courts**”), and each party irrevocably submits to the exclusive jurisdiction (except for proceedings instituted in regard to the enforcement of a judgment of any such court, as to which such jurisdiction is non-exclusive) of such courts in any such suit, action or proceeding. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or other proceeding in the Specified Courts and irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such suit, action or other proceeding brought in any such court has been brought in an inconvenient forum.

(h) *Patriot Act*. In accordance with the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), the Agents are required to obtain, verify and record information that identifies their clients, including the Company, which information may include the name and address of their clients, as well as other information that will allow the Agents to properly identify their clients.

(i) *Counterparts*. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed Agreement by one party to the other may be made by facsimile or other electronic transmission, including by email attachment.

13. Absence of Fiduciary Relationship.

The Company acknowledges and agrees that:

(a) the Company is a sophisticated business enterprise that has retained the Agents for the limited purposes set forth in this Agreement, and the Agents' and the Company's respective rights and obligations are contractual in nature;

(b) the Company is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated by this Agreement;

(c) the Company has been advised that the Agents and their affiliates are engaged in a broad range of transactions which may involve interests that differ from those of the Company and that the Agents have no obligation to disclose such interests and transactions to the Company by virtue of any fiduciary, advisory or agency relationship;

(d) the Company disclaims any intention to impose fiduciary obligations on the Agents by virtue of the engagement contemplated by this Agreement;

(e) the Agents have not provided any legal, accounting, regulatory or tax advice with respect to the transactions contemplated by this Agreement and the Company has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate;

(f) the Agents are full service securities firms and as such from time to time, subject to applicable securities laws, may effect transactions for their own accounts or the accounts of their customers and hold long or short positions in the Common Stock; and

(g) the Company waives, to the fullest extent permitted by law, any claims it may have against the Agents for breach of fiduciary duty or alleged breach of fiduciary duty and agrees that the Agents shall have no liability (whether direct or indirect) to the Company in respect to such fiduciary claim or to any person asserting a fiduciary duty claim on behalf of or in right of the Company, including shareholders, partners, employees or creditors of the Company.

[Remainder of Page Intentionally Blank]

If the foregoing correctly sets forth the understanding between the Company and the Agents, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the parties.

Very truly yours,

WATSCO, INC.

By: /s/ Barry S. Logan

Name: Barry S. Logan

Title: Executive Vice President

CONFIRMED AND ACCEPTED,

as of the date first above written

**ROBERT W. BAIRD & CO.
INCORPORATED**

By: /s/ Sandy Walter

Name: Sandy Walter

Title: Managing Director

GOLDMAN SACHS & CO. LLC

By: /s/ Russell Schmidt

Name: Russell Schmidt

Title: Managing Director

[Signature Page to Sales Agreement]

SCHEDULE 1

The Designated Agent shall be paid compensation equal to up to 2.0% of the gross proceeds from the sale of Placement Shares pursuant to the terms of this Agreement.

SCHEDULE 2

Placement Notice Authorized Personnel

Company:

Name	Title	Email Address
Albert H. Nahmad	Chairman & CEO	anahmad@watsco.com

With a Copy to:

Name	Title	Email Address
Barry Logan	Executive Vice President	blogan@watsco.com
Ana Menendez	Chief Financial Officer	amenendez@watsco.com
Shannon Savage	Corporate Controller	ssavage@watsco.com

Agents:

Name	Title	Email Address
Sandy Walter	Managing Director	swalter@rwbaird.com
Barbara Nelson	Senior Vice President	banelson@rwbaird.com
Matt Gailey	Vice President	mgailey@rwbaird.com
Russell Schmidt	Managing Director	russell.schmidt@gs.com
Terry Hagerty	Managing Director	terry.hagerty@gs.com

EXHIBIT A

FORM OF PLACEMENT NOTICE

From: Watsco, Inc.

To: [Robert W. Baird & Co. Incorporated/Goldman Sachs & Co. LLC]

Cc:

Subject: Placement Notice

Ladies and Gentlemen:

Pursuant to the terms and subject to the conditions contained in the Amended and Restated Sales Agreement by and among Watsco, Inc. (the “**Company**”), Robert W. Baird & Co. Incorporated and Goldman Sachs & Co. LLC dated February 25, 2022 (the “**Agreement**”), I hereby request on behalf of the Company that [] sell up to [] shares of the Company’s common stock, \$0.50 par value per share, at a market price per share of not less than \$[].

[ADDITIONAL SALES PARAMETERS MAY BE ADDED, SUCH AS THE MAXIMUM AGGREGATE OFFERING PRICE AND THE MANNER IN WHICH SALES ARE TO BE MADE BY THE DESIGNATED AGENT.]

EXHIBIT B

FORM OF OFFICERS' CERTIFICATE

Date: _____

Pursuant to Section 7(l) of the Amended and Restated Sales Agreement (the "**Agreement**"), dated as of February 25, 2022, by and among Watsco, Inc. (the "**Company**"), Robert W. Baird & Co. Incorporated and Goldman Sachs & Co. LLC (the "**Agents**"), the undersigned [], [] of the Company, hereby represents and warrants, on behalf of the Company and not individually, to the Agents that, as of the date first set forth above:

1. The representations and warranties of the Company in the Agreement, are true and correct as if made at and as of such date, except that representations and warranties of the Company in the Agreement that refer to specific dates are true and correct at and as of such respective dates.

2. The Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to such date.

Name:

Title:

Date:

Annex I

Watsco, Inc.

Common Stock
(\$0.50 par value per share)

TERMS AGREEMENT

Robert W. Baird & Co. Incorporated
777 East Wisconsin Avenue
Milwaukee, WI 53202

Goldman Sachs & Co. LLC
200 West Street, 29th Floor
New York, New York 10282

Ladies and Gentlemen:

Watsco, Inc., a Florida corporation (the “**Company**”), proposes, on the basis of the representations and warranties, and subject to the terms and conditions, stated herein and in the Amended and Restated Sales Agreement, dated February 25, 2022 (the “**Sales Agreement**”), among the Company, Robert W. Baird & Co. Incorporated and Goldman Sachs & Co. LLC (each, an “**Agent**” and collectively, the “**Agents**”), to issue and sell to [] as principal for resale (the “**Underwriter**”), and the Underwriter agrees to purchase from the Company the shares of Common Stock specified in the Schedule A (the “**[Initial]* Securities**”), on the terms specified in Schedule A. Capitalized terms used but not defined herein have the respective meanings ascribed thereto in the Sales Agreement.

[The Company grants an option to the Underwriter to purchase up to an additional [•] shares of Common Stock specified in Schedule A (the “**Option Securities**,” and together with the Initial Securities, the “**Securities**”) at the price per share set forth in Schedule A, less an amount per share equal to any dividends or distributions declared by the Company and payable on the Initial Securities but not payable on the Option Securities. The option hereby granted may be exercised for [30] days after the date hereof and may be exercised in whole or in part at any time from time to time upon notice by the Underwriter to the Company setting forth the number of Option Securities as to which the Underwriter is then exercising the option and the time and date of payment and delivery for such Option Securities. Any such time and date of delivery (a “**Date of Delivery**”) shall be determined by the Underwriter, but shall not be later than seven full business days after the exercise of said option, nor in any event prior to the Settlement Date (as defined below). For purposes of clarity, the parties hereto agree that the officers’ certificate, opinions and letter of counsel and accountants’ letter referred to in Section 7(l), (m) and (n), respectively, of the Sales Agreement are required to be delivered by or on behalf of the Company on the Settlement Date.]*

Payment of the purchase price for, and delivery of certificates for, the [Initial]* Securities shall be made at the offices of [], [], or at such other place as shall be agreed upon by the Underwriter and the Company, at [] A.M./P.M. (Eastern time) on the [second][third] (or [third][fourth], if the pricing occurs after 4:30 P.M. (Eastern time) on any given day) Business Day after the date hereof**, or such other time not later than ten Business Days after such date as shall be agreed upon by the Underwriter and the Company (such time and date of payment and delivery being herein called “**Settlement Date**”).

[In addition, in the event that any or all of the Option Securities are purchased by the Underwriter, payment of the purchase price for, and delivery of certificates for, such Option Securities shall be made at the above-mentioned offices, or at such other place as shall be agreed upon by the Underwriter and the Company, on each Date of Delivery as specified in the notice from the Underwriter to the Company.]

Payment shall be made to the Company by wire transfer of immediately available funds to a bank account designated by the Company against delivery of the Securities to the Underwriter.

Each of the provisions of the Sales Agreement not related solely to the Agents, as agents of the Company, is incorporated herein by reference in its entirety, and shall be deemed to be part of this Terms Agreement to the same extent as if each such provision had been set forth in full herein. Each of the representations and warranties set forth in the Sales Agreement shall be deemed to have been made at and as of the date of this Terms Agreement [and] [,]* the Applicable Time [and any Date of Delivery].*

If the foregoing is in accordance with your understanding of our agreement, please sign and return to the Company a counterpart hereof, whereupon this instrument, along with all counterparts, will become a binding agreement between the Underwriter and the Company in accordance with its terms.

THIS TERMS AGREEMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS TERMS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ITS CHOICE OF LAW PROVISIONS.

Very truly yours,

Watsco, Inc.

By: _____

Name:

Title:

Accepted as of the date hereof:

[Robert W. Baird & Co. Incorporated]

By: _____

Name:

Title:

[Goldman Sachs & Co. LLC]

By: _____

Name:

Title:

* Include only if the Underwriter has an option to purchase additional shares of Common Stock from the Company.

** If executed following a change in industry practice for regular-way trading, adjust accordingly.

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

Forward-Looking Statements

This Annual Report on 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. Statements which are not historical in nature, including the words “anticipate,” “estimate,” “could,” “should,” “may,” “plan,” “seek,” “expect,” “believe,” “intend,” “target,” “will,” “project,” “focused,” “outlook,” “goal,” “designed,” and variations of these words and negatives thereof and similar expressions are intended to identify forward-looking statements, including statements regarding, among others, (i) economic conditions, (ii) business and acquisition strategies, (iii) potential acquisitions and/or joint ventures and investments in unconsolidated entities, (iv) financing plans, and (v) industry, demographic and other trends affecting our financial condition or results of operations. These forward-looking statements are based on management’s current expectations, are not guarantees of future performance and are subject to a number of risks, uncertainties, and changes in circumstances, certain of which are beyond our 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, both in the United States and in the international markets we serve;
- competitive factors within the HVAC/R industry;
- effects of supplier concentration;
- fluctuations in certain commodity costs;
- consumer spending;
- consumer debt levels;
- the continued impact of the COVID-19 pandemic;
- new housing starts and completions;
- capital spending in the commercial construction market;
- access to liquidity needed for operations;
- seasonal nature of product sales;
- weather patterns and conditions;
- insurance coverage risks;
- federal, state, and local regulations impacting our industry and products;
- prevailing interest rates;
- foreign currency exchange rate fluctuations;
- international risk;
- cybersecurity risk; and
- the continued viability of our business strategy.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. For additional information regarding important factors that may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, please see the discussion included in Item 1A “Risk Factors” of this Annual Report on Form 10-K, as well as the other documents and reports that we file with the SEC. 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 as required by applicable law. We qualify any and all of our forward-looking statements by these cautionary factors.

This discussion summarizes the significant factors affecting our consolidated operating results, financial condition and liquidity for the year ended December 31, 2021. This discussion 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 on Form 10-K for the year ended December 31, 2021.

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Company Overview

Watsco, Inc. was incorporated in Florida in 1956, and, together with its subsidiaries (collectively, “Watsco,” or “we,” “us,” or “our”) is the largest distributor of air conditioning, heating, and refrigeration equipment, and related parts and supplies (“HVAC/R”) in the HVAC/R distribution industry in North America. At December 31, 2021, we operated from 671 locations in 42 U.S. States, Canada, Mexico, and Puerto Rico with additional market coverage on an export basis to portions of 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, a majority of which we operate under non-cancelable operating leases.

Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal. Furthermore, profitability can be impacted favorably or unfavorably based on weather patterns, particularly during the 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 first and fourth quarters. Demand related to the new construction sectors throughout most of the markets we serve tends to be fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

COVID-19 Pandemic

The COVID-19 pandemic continues to have widespread, rapidly-evolving and unpredictable impacts on financial markets and business practices. As conditions fluctuate, governments and organizations have responded by adjusting their restrictions and guidelines accordingly. Although we have learned to navigate COVID-19 while maintaining our operations in all material respects, our focus remains on promoting employee health and safety, serving our customers and ensuring business continuity.

In response to the pandemic, we implemented plans intended to preserve adequate liquidity and ensure that our business continued to operate during this uncertain time. In addition, we took actions to reduce costs, including reductions in compensation, rent abatement, changes to vendor terms and other austerity measures to curtail discretionary spending in light of the circumstances in 2020. As restrictions have eased and normal economic conditions have largely resumed, our various austerity measures to curtail discretionary spending have eased.

As economic activity has been recovering and the effects of the pandemic lessened in 2021, the impact of the pandemic on our business has been more reflective of greater economic and marketplace dynamics rather than pandemic-related issues, such as location closures, mandated restrictions and employee illness. Manufacturers experienced some level of supply chain disruptions caused by constrained component availability, labor shortages, transportation delays, and other logistical challenges, all of which impacted typical lead times and overall availability of HVAC/R products. These supply chain disruptions impacted our ability to fulfill contractor demand at various points during 2021. Despite these disruptions, we experienced growth in sales of residential units during the year. As of the date of this filing, product availability has improved in recent months and more typical inventory levels are being reestablished to meet the continued strong end-market demand.

Notwithstanding the recent resurgence of economic activity, in light of variant strains of the virus and the continued rate of viral infections that exists as of the date of this filing, there remains uncertainty concerning the magnitude of the impact and duration of the COVID-19 pandemic. The full impact of the COVID-19 pandemic on our financial condition and results of operations will continue to depend on future developments, such as the ultimate duration and scope of the pandemic, its impact on our employees, customers and suppliers, potential subsequent waves of COVID-19 infection or potential new variants, the effectiveness and adoption of COVID-19 vaccines and therapeutics, the broader implications of the macro-economic recovery on our business, and the extent to which normal economic and operating conditions are impacted, and whether the pandemic exacerbates the risks disclosed in Item 1A “Risk Factors” of this Annual Report on Form 10-K for the year ended December 31, 2021. We intend to continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and shareholders.

Climate Change and Reductions in CO₂e Emissions

We believe that our business plays an important and significant role in the drive to lower CO₂e emissions. According to the United States Department of Energy, heating and air conditioning accounts for roughly half of household energy consumption in the United States. As such, replacing HVAC systems at higher efficiency levels is one of the most meaningful steps homeowners can take to reduce their electricity costs and carbon footprint over time.

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The overwhelming majority of new HVAC systems that we sell replace systems that likely operate well below current minimum efficiency standards in the United States and may use more harmful refrigerants that have been, or are being, phased-out. As consumers replace HVAC systems with new, higher-efficiency systems, homeowners will consume less energy, save costs and reduce the carbon footprint over time.

The sale of high-efficiency systems has long been a focus of ours, and we have invested in tools and technology intended to capture an increasingly richer sales mix over time. In addition, regulatory mandates will periodically increase the required minimum SEER, thus providing a catalyst for greater sales of higher-efficiency systems.

We offer a broad variety of systems that operate beyond the minimum SEER standards, including systems that operate at more than 20 SEER. Our sales of higher-efficiency residential HVAC systems grew 26% organically in 2021, outpacing the overall growth rate of 17% for residential HVAC equipment in the United States. Based on estimates validated by independent sources, we averted an estimated 10.1 million metric tons of CO₂e emissions during 2020 and 2021 through the sale of replacement residential HVAC systems at higher-efficiency standards.

Joint Ventures with Carrier Global Corporation

In 2009, we formed a joint venture with Carrier, which we refer to as Carrier Enterprise I, in which Carrier contributed company-owned locations in the Sun Belt states and Puerto Rico, and its export division in Miami, Florida, and we contributed certain locations that distributed Carrier products. We have an 80% controlling interest in Carrier Enterprise I, and Carrier has a 20% non-controlling interest. The export division, Carrier InterAmerica Corporation, redomesticated from the U.S. Virgin Islands to Delaware effective December 31, 2019, following which Carrier InterAmerica Corporation became a separate operating entity in which we have an 80% controlling interest and Carrier has a 20% non-controlling interest. On August 1, 2019, Carrier Enterprise I acquired substantially all of the HVAC assets and assumed certain of the liabilities of Peirce-Phelps, Inc. (“PPI”), an HVAC distributor operating from 19 locations in Pennsylvania, New Jersey, and Delaware.

In 2011, we formed a second joint venture with Carrier, which we refer to as Carrier Enterprise II, in which Carrier contributed company-owned locations in the Northeast U.S., and we contributed certain locations operating as Homans Associates LLC (“Homans”), a Watsco subsidiary, in the Northeast U.S. Subsequently, Carrier Enterprise II purchased Carrier’s distribution operations in Mexico. We have an 80% controlling interest in Carrier Enterprise II, and Carrier has a 20% non-controlling interest. Effective May 31, 2019, we repurchased the 20% ownership interest in Homans from Carrier Enterprise II, following which we own 100% of Homans. Homans previously operated as a division of Carrier Enterprise II and subsequent to the purchase operates as a wholly owned subsidiary of the Company.

In 2012, we formed a third joint venture with Carrier, which we refer to as Carrier Enterprise III. Carrier contributed 35 of its company-owned locations in Canada to Carrier Enterprise III. We have a 60% controlling interest in Carrier Enterprise III, and Carrier has a 40% non-controlling interest.

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, an HVAC distributor operating from 32 locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new, stand-alone joint venture with Carrier, TEC Distribution LLC (“TEC”), that operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest.

Critical Accounting Estimates

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.

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Our significant accounting policies are discussed in Note 1 to our audited consolidated financial statements included in this Annual Report on Form 10-K. Management believes that the following accounting estimates include a higher degree of judgment and/or complexity and are reasonably likely to have a material impact on our financial condition or results of operations and, thus, are considered critical accounting estimates. Management has discussed the development and selection of critical accounting estimates 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. We typically do not require our customers to provide collateral. Accounting for doubtful accounts contains uncertainty because management must use judgment to assess the collectability of these accounts. When preparing these estimates, management considers several factors, including the aging of a customer's account, past transactions with customers, creditworthiness of specific customers, historical trends, and other information, including potential impacts of business and economic conditions. Our business and our customers' businesses are 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 \$11.3 million and \$7.1 million at December 31, 2021 and 2020, respectively, an increase of \$4.2 million, which is primarily due to an account delinquent in their payments due to us as of December 31, 2021. Accounts receivable balances greater than 90 days past due as a percent of accounts receivable at December 31, 2021 decreased to 0.9% from 1.4% at December 31, 2020, primarily attributable to an improvement in the underlying quality of our accounts receivable portfolio at December 31, 2021.

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 our customers, resulting in an impairment of their ability to make payments and requiring additional allowances that could materially impact our consolidated results of operations. We believe our exposure to customer credit risk is 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 credit insurance programs.

Inventory Valuation Reserves

Inventory valuation reserves are established to report inventories at the lower of cost using the weighted-average and the first-in, first-out methods, or net realizable value. As part of the valuation process, inventories are adjusted to reflect excess, slow-moving, and damaged goods. The valuation process contains uncertainty because management must make estimates and use judgment to determine the future salability of inventories. Inventory policies are reviewed periodically, 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, Indefinite Lived Intangible Assets and Long-Lived 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. 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, 2022, we performed our annual evaluation of goodwill impairment and determined that the estimated fair value of our reporting unit exceeded its carrying value.

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

The estimates of fair value of our reporting unit, indefinite lived intangibles, and long-lived assets 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 had an impact on this conclusion. The carrying amounts of goodwill, intangibles, and long-lived

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assets were \$1,124.5 million and \$999.9 million at December 31, 2021 and 2020, respectively, an increase of \$124.6 million, primarily reflecting newly acquired businesses. Although no impairment losses have been recorded to date, there can be no assurance that impairments will not occur in the future. An adjustment to the carrying value of goodwill, intangibles, and long-lived assets could materially adversely impact the consolidated results of operations.

Loss Contingencies

Accruals are recorded for various contingencies including self-insurance, legal proceedings, environmental matters, and other claims that arise in the normal course of business. The estimation process contains uncertainty because accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of external legal counsel and actuarially determined estimates. Additionally, we record receivables from third party insurers when recovery has been determined to be probable.

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 several 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 self-insurance reserves are adequate. If actual claims or adverse development of loss reserves occur and exceed these estimates, additional reserves may be required and could materially impact the consolidated results of operations. 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 \$7.3 million and \$5.4 million at December 31, 2021 and 2020, 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 \$5.1 million and \$0.7 million was recorded at December 31, 2021 and 2020, respectively. The increase was primarily attributable to the impact on U.S. deferred tax assets from share-based compensation deduction limitations related to the expansion of IRC Section 162(m). See Note 9 to our audited consolidated financial statements included in this Annual Report on Form 10-K. The valuation allowance is based on several factors including, but not limited to, estimates of future taxable income by jurisdiction in which the deferred tax assets will be recoverable. These estimates can be affected by several factors, including changes to tax laws, or 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.

New Accounting Standards

There have been no new accounting standards made effective during 2021 that have significance, or potential significance, to our consolidated financial statements.

Results of Operations

The following table summarizes information derived from our audited consolidated statements of income, expressed as a percentage of revenues, for the years ended December 31, 2021, 2020 and 2019.

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	2021	2020	2019
Revenues	100.0%	100.0%	100.0%
Cost of sales	73.4	75.8	75.7
Gross profit	26.6	24.2	24.3
Selling, general and administrative expenses	16.9	16.5	16.8
Other income	0.3	0.2	0.2
Operating income	10.0	7.9	7.7
Interest expense, net	0.0	0.0	0.1
Income before income taxes	10.0	7.9	7.6
Income taxes	2.1	1.5	1.4
Net income	7.9	6.4	6.2
Less: net income attributable to non-controlling interest	1.3	1.1	1.0
Net income attributable to Watsco, Inc.	6.7%	5.3%	5.2%

Note: Due to rounding, percentages may not add up to 100.

The following narratives reflect our acquisitions of Makdad Industrial Supply Co., Inc. (“MIS”) in August 2021, Acme Refrigeration of Baton Rouge LLC (“ACME”) in May 2021, and Temperature Equipment Corporation in April 2021.

In the following narratives, computations and other information referring to “same-store basis” exclude the effects of locations closed, acquired, or locations opened, in each case during the immediately preceding 12 months, unless such locations are within close geographical proximity to existing locations. At December 31, 2021 and 2020, four and two locations, respectively, that we had opened during the immediately preceding 12 months were near existing locations and were therefore included in “same-store basis” information.

The table below summarizes the changes in our locations for 2021 and 2020:

	Number of Locations
December 31, 2019	606
Opened	3
Closed	(9)
December 31, 2020	600
Opened	24
Acquired	56
Closed	(9)
December 31, 2021	671

2021 Compared to 2020

Revenues

Revenues for 2021 increased \$1,225.3 million, or 24%, to \$6,280.2 million, including \$326.5 million attributable to new locations acquired and \$19.1 million from other locations opened during the preceding 12 months, offset by \$8.0 million from locations closed. Sales of HVAC equipment (69% of sales) increased 23%, sales of other HVAC products (28% of sales) increased 22% and sales of commercial refrigeration products (3% of sales) increased 29%. On a same-store basis, revenues increased \$887.7 million, or 18%, as compared to 2020, reflecting an 18% increase in sales of HVAC equipment (69% of sales), which included an 18% increase in residential HVAC equipment (17% increase in U.S. markets and a 26% increase in international markets) and a 17% increase in sales of commercial HVAC equipment (16% increase in U.S. markets and a 20% increase in international markets), a 17% increase in sales of other HVAC products (27% of sales), and a 29% increase in sales of commercial refrigeration products (4% of sales). For HVAC equipment, the increase in revenues was primarily due to strong demand for residential HVAC equipment, the realization of price increases, and a greater mix of high-efficiency air conditioning and heating systems, which sell at higher unit prices. During 2021, the unit volume for residential unitary air conditioning equipment increased 8% and the average selling price increased 9%.

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Gross Profit

Gross profit for 2021 increased \$444.7 million, or 36%, to \$1,667.5 million, primarily as a result of increased revenues. Gross profit margin improved 240 basis-points to 26.6% in 2021 versus 24.2% in 2020, primarily due to the benefits of pricing actions implemented using technologies to optimize pricing and margins to pass on price increases from our suppliers to our customers and an improved sales mix of higher-efficiency HVAC systems.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2021 increased \$225.3 million, or 27%, to \$1,058.3 million, primarily due to increased revenues and newly acquired locations. Selling, general and administrative expenses as a percentage of revenues for 2021 increased to 16.9% versus 16.5% in 2020. On a same-store basis, selling, general and administrative expenses increased 19% as compared to 2020 and as a percentage of sales increased to 16.6% versus 16.5% in 2020. The increase was primarily related to increased higher variable selling costs driven by the increase in revenues, investments in employee headcount and performance-based compensation costs (commissions and bonuses throughout the Company), increased logistics costs in response to strong demand and continuing supply chain disruptions, and increased rent expense associated with new locations opened. Selling, general and administrative expenses in 2021 also reflect a \$7.6 million increase in spending for ongoing technology initiatives.

Other Income

Other income of \$19.3 million and \$11.3 million for 2021 and 2020, respectively, represented our share of the net income of Russell Sigler, Inc. ("RSI"), in which we have a 38.1% equity interest.

Operating Income

Operating income for 2021 increased \$227.5 million, or 57%, to \$628.5 million. Operating margin improved 210 basis-points to 10.0% in 2021 from 7.9% at 2020. On a same-store basis, operating margin was 10.1% in 2021 as compared to 7.9% in 2020.

Interest Expense, Net

Interest expense, net for 2021 decreased \$0.2 million, or 20%, to \$1.0 million, primarily as a result of a decrease in average outstanding borrowings for the 2021 period, as compared to the same period in 2020.

Income Taxes

Income taxes increased 68% to \$128.8 million and represent a composite of the income taxes attributable to our wholly owned operations and income taxes attributable to the Carrier joint ventures, which are primarily taxed as partnerships for income tax purposes; therefore, Carrier is responsible for its proportionate share of income taxes attributable to its share of earnings from these joint ventures. The effective income tax rates attributable to us were 23.4% and 22.0% for 2021 and 2020, respectively. The increase was primarily due to the addition of a valuation allowance on the deferred tax asset related to share-based compensation, higher state income taxes, and proportionately higher income in 2021 as compared to tax credits and share-based compensation deductions in 2020.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco in 2021 increased \$149.4 million, or 55%, to \$418.9 million. The increase was primarily driven by higher revenues and expanded profit margins, partially offset by higher selling, general and administrative expenses, income taxes, and an increase in the net income attributable to the non-controlling interest.

Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2020 for a discussion of results of operations for the year ended December 31, 2020 compared to the year ended December 31, 2019.

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 for HVAC/R products, which peaks in the months of May through August. Significant factors that could affect our liquidity include the following:

- cash needed to fund our business (primarily working capital requirements);
- borrowing capacity under our revolving credit facility;
- the ability to attract long-term capital with satisfactory terms;

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- acquisitions, including joint ventures and investments in unconsolidated entities;
- 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 borrowing capacity under our revolving credit agreement to fund seasonal working capital needs and for other general corporate purposes in the short-term and the long-term, including dividend payments (if and as declared by our Board of Directors), capital expenditures, business acquisitions, and development of our long-term operating and technology strategies. Additionally, we may also generate cash through the issuance and sale of our Common stock.

As of December 31, 2021, we had \$118.3 million of cash and cash equivalents, of which \$103.6 million was held by foreign subsidiaries. The repatriation of cash balances from our foreign subsidiaries could have adverse tax impacts or be subject to capital controls; however, these balances are generally available to fund the ordinary business operations of our foreign subsidiaries without legal restrictions.

We believe that our operating cash flows, cash on hand, funds available for borrowing under our revolving credit agreement, and funds available from sales of our Common stock under our at-the-market offering program, each of which is described below, will be sufficient to meet our liquidity needs for the foreseeable future. However, there can be no assurance that our current sources of available funds will be sufficient to meet our cash requirements.

Our access to funds under our revolving credit agreement depends on the ability of the syndicate banks to meet their respective funding commitments. Disruptions in the credit and capital markets could adversely affect our ability to draw on our revolving credit agreement and may also adversely affect the determination of interest rates, particularly rates based on LIBOR, which is one of the base rates under our revolving credit agreement. On March 5, 2021, the United Kingdom Financial Conduct Authority, which regulates LIBOR, confirmed that LIBOR will either cease to be provided by any administrator or will no longer be representative after June 30, 2023 for USD LIBOR reference rates. Our revolving credit agreement provides that it may be amended to replace LIBOR with an alternate benchmark rate. The impact of such an amendment cannot be entirely predicted but could result in an increase in the cost of our debt. Additionally, disruptions in the credit and capital markets could also result in increased borrowing costs and/or reduced borrowing capacity under our revolving credit agreement.

Working Capital

Working capital increased to \$1,234.7 million at December 31, 2021, which includes 56 locations added by acquisitions in 2021 that in aggregate added \$91.1 million of working capital. Excluding these acquired locations, working capital increased 15% to \$1,143.6 million at December 31, 2021 from \$997.3 million at December 31, 2020, primarily due to higher accounts receivable consistent with overall increased sales and higher levels of inventory in support of stronger business conditions.

Cash Flows

The following table summarizes our cash flow activity for 2021 and 2020 (in millions):

	2021	2020	Change
Cash flows provided by operating activities	\$ 349.6	\$ 534.4	\$(184.8)
Cash flows used in investing activities	\$(148.6)	\$ (16.3)	\$(132.3)
Cash flows used in financing activities	\$(228.6)	\$(448.5)	\$ 219.9

The individual items contributing to cash flow changes for the years presented are detailed in the audited consolidated statements of cash flows included in this Annual Report on Form 10-K.

Operating Activities

The decrease in net cash provided by operating activities was primarily due to higher levels of inventory in support of strong business conditions and higher accounts receivable driven by increased sales, partially offset by timing of vendor payments in 2021 as compared to 2020.

Investing Activities

Net cash used in investing activities was higher primarily due to cash consideration paid for acquisitions.

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Financing Activities

The decrease in net cash used in financing activities was primarily attributable to net borrowings under our revolving credit agreement in 2021 versus net repayments in 2020 and \$21.0 million in proceeds from the non-controlling interest for its contribution to the acquisition of Temperature Equipment Corporation in 2021, partially offset by an increase in dividends paid in 2021.

Revolving Credit Agreement

We maintain an unsecured, \$560.0 million syndicated multicurrency revolving credit agreement, which we use to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends (if and as declared by our Board of Directors), capital expenditures, stock repurchases and issuances of letters of credit. The credit facility has a seasonal component from October 1 to March 31, during which the borrowing capacity may be reduced to \$460.0 million at our discretion (which effectively reduces fees payable in respect of the unused portion of the commitment), and we effected this reduction in 2021. Included in the credit facility are a \$100.0 million swingline subfacility, a \$10.0 million letter of credit subfacility, a \$75.0 million alternative currency borrowing sublimit and an \$8.0 million Mexican borrowing sublimit. The credit agreement matures on December 5, 2023.

Borrowings under the credit facility bear interest at either LIBOR-based rates plus a spread, which ranges from 87.5 to 150.0 basis-points (LIBOR plus 87.5 basis-points at December 31, 2021), depending on our ratio of total debt to EBITDA, or on rates based on the highest of the Federal Funds Effective Rate plus 0.5%, the Prime Rate or the Eurocurrency Rate plus 1.0%, in each case plus a spread which ranges from 0 to 50.0 basis-points (0 basis-points at December 31, 2021), depending on our ratio of total debt to EBITDA. We pay a variable commitment fee on the unused portion of the commitment under the revolving credit agreement, ranging from 7.5 to 20.0 basis-points (7.5 basis-points at December 31, 2021).

At December 31, 2021 \$89.0 million was outstanding under the revolving credit agreement. At December 31, 2020 there was no outstanding balance under the revolving credit agreement. The revolving credit agreement contains customary affirmative and negative covenants, including financial covenants with respect to consolidated leverage and interest coverage ratios, and other customary restrictions. We believe we were in compliance with all covenants at December 31, 2021.

At-the-Market Offering Program

On August 6, 2021, we entered into a sales agreement with Robert W. Baird & Co. Inc. (“Baird”), which enables the Company to issue and sell shares of Common stock in one or more negotiated transactions or transactions that are deemed to be “at the market” offerings as defined in Rule 415 under the Securities Act of 1933, as amended (the “Securities Act”), for a maximum aggregate offering amount of up to \$300.0 (the “ATM Program”). The offer and sale of our Common stock pursuant to the ATM Program has been registered under the Securities Act pursuant to our automatically effective shelf registration statement on Form S-3 (File No. 333-260758). As of December 31, 2021, no shares of Common stock had been sold under the ATM Program.

On February 25, 2022, we amended our sales agreement with Baird to include Goldman Sachs & Co. LLC as an additional sales agent. See Item 9B of this Annual Report on Form 10-K for additional information.

Contractual Obligations

At December 31, 2021, operating lease liabilities for real property, vehicles and equipment totaled \$269.0 million and expire at various dates through 2031. Refer to Note 2 to our audited consolidated financial statements included in this Annual Report on Form 10-K for information on our operating lease liabilities and related maturities.

On October 15, 2022, 975,622 shares of Class B restricted stock held by our Chief Executive Officer (“CEO”) will vest. The CEO may elect to satisfy the tax withholding obligations in connection with the vesting of restricted stock either by the Company’s withholding of shares otherwise deliverable to the CEO, or in cash, or any combination of the two. If the CEO elects to withhold shares, we would satisfy the withholding tax obligations in cash. Based on the closing price of Watsco’s Class B common stock and withholding tax rates in effect at December 31, 2021, the estimated withholding tax obligation would have been approximately \$118.0 million had the shares vested on December 31, 2021.

Commercial obligations outstanding at December 31, 2021 under our revolving credit agreement consisted of borrowings totaling \$89.0 million with revolving maturities of nine days.

At December 31, 2021, we were obligated under various non-cancelable purchase orders with our key suppliers for goods aggregating approximately \$45.0 million, of which approximately \$31.0 million is with Carrier and its affiliates. These purchase obligations represent commitments under purchase orders for goods in the ordinary course of business that are enforceable and legally binding with defined terms as to price, quantity, and delivery.

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The total amount of unrecognized tax benefits (net of the federal benefit received from state positions) relating to various tax positions we have taken, the timing of which is uncertain, was \$5.6 million at December 31, 2021. Refer to Note 9 to our audited consolidated financial statements included in this Annual Report on Form 10-K for additional information on our unrecognized tax benefits.

Off-Balance Sheet Arrangements

Refer to Note 16 to our audited consolidated financial statements included in this Annual Report on Form 10-K, under the caption “Off-Balance Sheet Financial Instruments,” for a discussion of a standby letter of credit and performance bonds for which we were contingently liable at December 31, 2021.

Investment in Unconsolidated Entity

Carrier Enterprise I has a 38.1% ownership interest in RSI, an HVAC distributor operating from 34 locations in the Western U.S. Our proportionate share of the net income of RSI is included in other income in our consolidated statements of income.

Carrier Enterprise I is a party to a shareholders’ agreement (the “Shareholders’ Agreement”) with RSI and its shareholders. Pursuant to the Shareholders’ Agreement, RSI’s shareholders have the right to sell, and Carrier Enterprise I has the obligation to purchase, their respective shares of RSI for a purchase price determined based on either book value or a multiple of EBIT, the latter of which Carrier Enterprise I used to calculate the price paid for its investment in RSI. RSI’s shareholders may transfer their respective shares of RSI common stock only to members of the Sigler family or to Carrier Enterprise I, and, at any time from and after the date on which Carrier Enterprise I owns 85% or more of RSI’s outstanding common stock, it has the right, but not the obligation, to purchase from RSI’s shareholders the remaining outstanding shares of RSI common stock. At December 31, 2021, the estimated purchase amount we would be contingently liable for was approximately \$315.0 million. We believe that our operating cash flows, cash on hand, and funds available for borrowing under our revolving credit agreement would be sufficient to purchase any additional ownership interests in RSI.

Acquisitions

On August 20, 2021, one of our wholly owned subsidiaries acquired MIS, a distributor of air conditioning and heating products operating from six locations in Pennsylvania. Consideration for the purchase price consisted of \$3.1 million in cash and the issuance of 3,627 shares of Common stock having a fair value of \$1.0 million, net of cash acquired of \$0.2 million.

On May 7, 2021, we acquired certain assets and assumed certain liabilities of ACME, a distributor of air conditioning, heating, and refrigeration products, operating from 18 locations in Louisiana and Mississippi, for \$22.9 million less certain average revolving indebtedness. Consideration for the net purchase price consisted of \$18.1 million in cash, 8,492 shares of Common stock having a fair value of \$2.6 million, and \$3.1 million repayment of indebtedness, net of cash acquired of \$1.3 million.

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, an HVAC distributor operating from 32 locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new, stand-alone joint venture with Carrier, TEC, that operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest. Consideration for the purchase was paid in cash, consisting of \$105.2 million paid to Temperature Equipment Corporation (Carrier contributed \$21.0 million and we contributed \$84.2 million) and \$1.5 million for repayment of indebtedness.

We continually evaluate potential acquisitions and/or joint ventures and investments in unconsolidated entities. We routinely hold discussions with several acquisition candidates. Should suitable acquisition opportunities arise that would require additional financing, we believe our financial position and earnings history provide a sufficient basis for us to either obtain additional debt financing at competitive rates and on reasonable terms or raise capital through the issuance of equity securities.

Common Stock Dividends

We paid cash dividends of \$7.625, \$6.925 and \$6.40 per share of Common stock and Class B common stock in 2021, 2020, and 2019, respectively. On January 3, 2022, our Board of Directors declared a regular quarterly cash dividend of \$1.95 per share of both Common and Class B common stock that was paid on January 31, 2022 to shareholders of record as of January 14, 2022. On February 8, 2022, our Board of Directors approved an increase to the annual cash dividend per share of Common and Class B common stock to \$8.80 per share from \$7.80 per share, effective with the quarterly dividend that will be paid in April 2022. Future dividends and/or changes in dividend rates are at the sole discretion of the Board of Directors and depend upon factors including, but not limited to, cash flow generated by operations, profitability, financial condition, cash requirements, and future prospects.

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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. We last repurchased shares under this plan in 2008. 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. At December 31, 2021, there were 1,129,087 shares remaining authorized for repurchase under the program.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, including fluctuations in foreign currency exchange rates and interest rates. To manage certain of these exposures, we use derivative instruments, including forward and option contracts and swaps. We use derivative instruments as risk management tools and not for trading purposes.

Foreign Currency Exposure

We are exposed to cash flow and earnings fluctuations resulting from currency exchange rate variations. These exposures are transactional and translational in nature. The foreign currency exchange rates to which we are exposed are the Canadian dollar and Mexican peso. Revenues in these markets accounted for 6% and 2%, respectively, of our total revenues for 2021.

Our transactional exposure primarily relates to purchases by our Canadian operations in currencies other than their local currency. To mitigate the impact of currency exchange rate movements on these purchases, we use foreign currency forward contracts. By entering into these foreign currency forward contracts, we lock in exchange rates that would otherwise cause losses should the U.S. dollar strengthen and gains should the U.S. dollar weaken, in each case against the Canadian dollar. We had only one foreign exchange contract at December 31, 2021, the total notional value of which was \$5.7 million, and such contract expired during January 2022. For the year ended December 31, 2021, foreign currency transaction gains and losses did not have a material impact on our results of operations.

We have exposure related to the translation of financial statements of our Canadian operations into U.S. dollars, our functional currency. We do not currently hold any derivative contracts that hedge our foreign currency translational exposure. A 10% change in the Canadian dollar would have had an estimated \$4.0 million impact to our financial position and results of operations for 2021.

Historically, fluctuations in these exchange rates have not materially impacted our results of operations. Our exposure to currency rate fluctuations could be material in the future if these fluctuations become significant or if our Canadian and Mexican markets grow and represent a larger percentage of our total revenues.

See Note 17 to our audited consolidated financial statements included in this Annual Report on Form 10-K for further information on our derivative instruments.

Interest Rate Exposure

Our revolving credit facility exposes us to interest rate risk because borrowings thereunder accrue interest at one or more variable interest rates. Our interest rate risk management objectives are to limit the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, we have historically entered into interest rate swap agreements with financial institutions that have investment grade credit ratings, thereby minimizing credit risk associated with these instruments. We do not currently hold any such swap agreements or any other derivative contracts that hedge our interest rate exposure, but we may enter into such instruments in the future.

We have evaluated our exposure to interest rates based on the amount of variable debt outstanding under our revolving credit agreement at December 31, 2021 and determined that a 100 basis-point change in interest rates would result in an impact to income before income taxes of approximately \$0.9 million. See Note 8 to our audited consolidated financial statements included in this Annual Report on Form 10-K for further information about our debt.

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.

In accordance with the rules and regulations of the SEC, we have not yet assessed the internal control over financial reporting of Makdad Industrial Supply Co., Inc. ("MIS"), Acme Refrigeration LLC ("ACME"), or TEC Distribution LLC ("TEC"), which collectively represented approximately 8% of our consolidated assets at December 31, 2021 and approximately 5% of our consolidated revenues for the year ended December 31, 2021. From the respective acquisition dates of August 20, 2021, May 7, 2021, and April 9, 2021 to December 31, 2021, the processes and systems of MIS, ACME, and TEC did not impact the internal controls over financial reporting for our other consolidated subsidiaries.

Under the supervision and with the participation of our management, including our Chief Executive Officer, Executive Vice President and Chief Financial Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2021. The assessment was based on criteria established in the framework *Internal Control — Integrated Framework (2013)*, 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, 2021. The effectiveness of our internal control over financial reporting as of December 31, 2021 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

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

Opinion on Internal Control Over Financial Reporting

We have audited Watsco, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements), and our report dated February 25, 2022 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Makdad Industrial Supply Co., Inc. ("MIS"), Acme Refrigeration LLC ("ACME"), and TEC Distribution LLC ("TEC") during 2021, and management excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2021, the MIS, ACME, and TEC's internal control over financial reporting associated with total assets of 8% and total revenues of 5% included in the consolidated financial statements of the Company as of and for the year ended December 31, 2021. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of MIS, ACME, and TEC.

Basis for Opinion

The Company'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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

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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.

/s/ KPMG LLP

Miami, Florida
February 25, 2022

Report of Independent Registered Public Accounting Firm

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

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Watsco, Inc. and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2021, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2021, 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) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Evaluation of inventory net realizable value adjustments related to excess and slow-moving inventory

As discussed in Note 1 to the consolidated financial statements, the Company values its inventory at the lower of cost using weighted-average cost basis and first-in, first-out methods, or net realizable value. The Company adjusts excess, slow-moving, and damaged inventory to their estimated net realizable value. As of December 31, 2021, the Company's inventory balance was \$1,115,469 thousand.

We identified the evaluation of inventory net realizable value adjustments related to excess and slow-moving inventory as a critical audit matter due to the amount of judgment required by the Company in making such estimates. As a result, there was a high degree of subjective auditor judgment in assessing such estimates, specifically as it related to the future salability of inventories.

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The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's process to estimate net realizable values related to excess and slow-moving inventory. This included controls related to the future salability of inventories, assumptions used for excess and slow-moving inventory, and the Company's review of inventory net realizable value adjustments. We compared a selection of inventory units to historical performance to assess possible write-down indications and future salability. We performed a sensitivity analysis under various scenarios and analyzed trends of total adjustments to net realizable values in relation to total inventory to test the Company's determination of the inventory valuation and adjustments related to excess and slow-moving inventory.

/s/ KPMG LLP

We have served as the Company's auditor since 2009.

Miami, Florida
February 25, 2022

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<i>(In thousands, except per share data)</i>	Years Ended December 31,		
	2021	2020	2019
Revenues	\$6,280,192	\$5,054,928	\$4,770,362
Cost of sales	4,612,647	3,832,107	3,613,406
Gross profit	1,667,545	1,222,821	1,156,956
Selling, general and administrative expenses	1,058,316	833,051	800,328
Other income	19,299	11,264	10,256
Operating income	628,528	401,034	366,884
Interest expense, net	996	1,239	4,032
Income before income taxes	627,532	399,795	362,852
Income taxes	128,797	76,623	67,077
Net income	498,735	323,172	295,775
Less: net income attributable to non-controlling interest	79,790	53,593	49,825
Net income attributable to Watsco, Inc.	<u>\$ 418,945</u>	<u>\$ 269,579</u>	<u>\$ 245,950</u>
Earnings per share for Common and Class B common stock:			
Basic	<u>\$ 10.83</u>	<u>\$ 7.03</u>	<u>\$ 6.51</u>
Diluted	<u>\$ 10.78</u>	<u>\$ 7.01</u>	<u>\$ 6.50</u>

See accompanying notes to consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(In thousands)</i>	<u>Years Ended December 31,</u>		
	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net income	\$498,735	\$323,172	\$295,775
Other comprehensive income, net of tax			
Foreign currency translation adjustment	936	6,272	12,298
Unrealized gain (loss) on cash flow hedging instruments	70	880	(1,461)
Reclassification of loss (gain) on cash flow hedging instruments into earnings	219	(418)	(352)
Other comprehensive income	1,225	6,734	10,485
Comprehensive income	499,960	329,906	306,260
Less: comprehensive income attributable to non-controlling interest	80,324	56,144	53,392
Comprehensive income attributable to Watsco, Inc.	<u>\$419,636</u>	<u>\$273,762</u>	<u>\$252,868</u>

See accompanying notes to consolidated financial statements.

**WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

<i>(In thousands, except share and per share data)</i>	December 31,	
	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 118,268	\$ 146,067
Accounts receivable, net	698,456	535,288
Inventories, net	1,115,469	781,299
Other current assets	29,207	21,791
Total current assets	1,961,400	1,484,445
Property and equipment, net	111,019	98,225
Operating lease right-of-use assets	268,528	209,169
Goodwill	434,019	412,486
Intangible assets, net	186,896	169,929
Investment in unconsolidated entity	114,808	97,847
Other assets	9,191	12,246
	<u>\$3,085,861</u>	<u>\$2,484,347</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term obligations	\$ 84,501	\$ 71,804
Accounts payable	364,185	251,553
Accrued expenses and other current liabilities	278,036	163,788
Total current liabilities	726,722	487,145
Long-term obligations:		
Borrowings under revolving credit agreement	89,000	—
Operating lease liabilities, net of current portion	187,024	139,527
Finance lease liabilities, net of current portion	9,189	4,811
Total long-term obligations	285,213	144,338
Deferred income taxes and other liabilities	76,511	73,103
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, \$0.50 par value, 60,000,000 shares authorized; 37,881,247 and 37,702,489 shares outstanding at December 31, 2021 and 2020, respectively	18,941	18,851
Class B common stock, \$0.50 par value, 10,000,000 shares authorized; 5,790,636 and 5,691,456 shares outstanding at December 31, 2021 and 2020, respectively	2,895	2,846
Preferred stock, \$0.50 par value, 10,000,000 shares authorized; no shares issued	—	—
Paid-in capital	1,003,932	950,915
Accumulated other comprehensive loss, net of tax	(34,176)	(34,867)
Retained earnings	760,796	636,373
Treasury stock, at cost, 4,823,988 shares of Common stock and 48,263 shares of Class B common stock at both December 31, 2021 and 2020, respectively	(87,440)	(87,440)
Total Watsco, Inc. shareholders' equity	1,664,948	1,486,678
Non-controlling interest	332,467	293,083
Total shareholders' equity	1,997,415	1,779,761
	<u>\$3,085,861</u>	<u>\$2,484,347</u>

See accompanying notes to consolidated financial statements.

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

<i>(In thousands, except share and per share data)</i>	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	Non-controlling Interest	Total
Balance at December 31, 2018	37,461,643	\$ 21,167	\$832,121	\$ (45,968)	\$ 627,969	\$(87,440)	\$ 253,864	\$1,601,713
Net income					245,950		49,825	295,775
Other comprehensive gain				6,918			3,567	10,485
Issuances of non-vested restricted shares of common stock	173,940	87	(87)					—
Forfeitures of non-vested restricted shares of common stock	(12,837)	(7)	7					—
Common stock contribution to 401(k) plan	30,715	15	4,259					4,274
Stock issuances from exercise of stock options and employee stock purchase plan	105,288	53	13,411					13,464
Retirement of common stock	(10,623)	(5)	(1,647)					(1,652)
Share-based compensation			16,537					16,537
Cash dividends declared and paid on Common and Class B common stock, \$6.40 per share					(241,412)			(241,412)
Common stock issued for Dunphey & Associates Supply Co., Inc.	50,952	25	6,866					6,891
Investment in unconsolidated entity							988	988
Decrease in non-controlling interest in Carrier Enterprise II			(25,768)				(6,632)	(32,400)
Common stock issued for Peirce-Phelps, Inc.	372,543	186	58,158					58,344
Investment in Peirce-Phelps, Inc.							17,000	17,000
Common stock issued for N&S Supply of Fishkill, Inc.	22,435	12	4,020					4,032
Distributions to non-controlling interest							(39,272)	(39,272)
Balance at December 31, 2019	<u>38,194,056</u>	<u>21,533</u>	<u>907,877</u>	<u>(39,050)</u>	<u>632,507</u>	<u>(87,440)</u>	<u>279,340</u>	<u>1,714,767</u>

Continued on next page.

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<i>(In thousands, except share and per share data)</i>	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	Non- controlling Interest	Total
Balance at December 31, 2019	38,194,056	21,533	907,877	(39,050)	632,507	(87,440)	279,340	1,714,767
Net income					269,579		53,593	323,172
Other comprehensive gain				4,183			2,551	6,734
Issuances of non-vested restricted shares of common stock	184,265	92	(92)					—
Forfeitures of non-vested restricted shares of common stock	(3,589)	(2)	2					—
Common stock contribution to 401(k) plan	25,216	13	4,530					4,543
Stock issuances from exercise of stock options and employee stock purchase plan	144,894	72	21,528					21,600
Retirement of common stock	(23,148)	(11)	(4,631)					(4,642)
Share-based compensation			21,862					21,862
Cash dividends declared and paid on Common and Class B common stock, \$6.925 per share					(265,713)			(265,713)
Adjustment to fair value of Common stock issued for N&S Supply of Fishkill, Inc.			(161)					(161)
Distributions to non-controlling interest							(42,401)	(42,401)
Balance at December 31, 2020	38,521,694	21,697	950,915	(34,867)	636,373	(87,440)	293,083	1,779,761

Continued on next page.

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<i>(In thousands, except share and per share data)</i>	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	Non-controlling Interest	Total
Balance at December 31, 2020	38,521,694	21,697	950,915	(34,867)	636,373	(87,440)	293,083	1,779,761
Net income					418,945		79,790	498,735
Other comprehensive gain				691			534	1,225
Issuances of non-vested restricted shares of common stock	194,643	97	(97)					—
Forfeitures of non-vested restricted shares of common stock	(57,089)	(28)	28					—
Common stock contribution to 401(k) plan	22,752	11	5,143					5,154
Stock issuances from exercise of stock options and employee stock purchase plan	136,641	69	22,111					22,180
Retirement of common stock	(7,898)	(4)	(2,253)					(2,257)
Common stock released from escrow	(23,230)	(12)	12		522			522
Share-based compensation			24,531					24,531
Cash dividends declared and paid on Common and Class B common stock, \$7.625 per share						(295,044)		(295,044)
Common stock issued for Acme Refrigeration of Baton Rouge LLC	8,492	4	2,547					2,551
Common stock issued for Makdad Industrial Supply Co., Inc.	3,627	2	995					997
Investment in TEC Distribution LLC							21,040	21,040
Distributions to non-controlling interest							(61,980)	(61,980)
Balance at December 31, 2021	<u>38,799,632</u>	<u>\$ 21,836</u>	<u>\$1,003,932</u>	<u>\$ (34,176)</u>	<u>\$ 760,796</u>	<u>\$(87,440)</u>	<u>\$ 332,467</u>	<u>\$1,997,415</u>

See accompanying notes to consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(In thousands)</i>	Years Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net income	\$ 498,735	\$ 323,172	\$ 295,775
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	28,127	25,908	24,512
Share-based compensation	25,365	22,129	17,032
Non-cash contribution to 401(k) plan	5,154	4,543	4,274
Provision for doubtful accounts	6,888	2,688	3,948
Loss (gain) on sale of property and equipment	350	17	(585)
Deferred income tax provision	5,939	40	1,278
Other income from investment in unconsolidated entity	(19,299)	(11,264)	(10,256)
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	(130,414)	(3,559)	8,457
Inventories, net	(243,660)	139,929	(15,525)
Accounts payable and other liabilities	182,819	33,936	12,734
Other, net	(10,438)	(3,160)	(5,873)
Net cash provided by operating activities	349,566	534,379	335,771
Cash flows from investing activities:			
Business acquisitions, net of cash acquired	(129,462)	—	(59,672)
Capital expenditures	(25,464)	(16,436)	(17,805)
Other investment	(1,000)	—	—
Investment in unconsolidated entity	—	—	(4,940)
Proceeds from sale of property and equipment	1,356	94	1,380
Proceeds from sale of equity securities	5,993	—	—
Net cash used in investing activities	(148,577)	(16,342)	(81,037)
Cash flows from financing activities:			
Dividends on Common and Class B common stock	(294,522)	(265,713)	(241,412)
Distributions to non-controlling interest	(61,980)	(42,401)	(39,272)
Net repayments of finance lease liabilities	(2,040)	(1,441)	(1,240)
Repurchases of common stock to satisfy employee withholding tax obligations	(1,092)	(2,299)	(1,528)
Payment of fees related to revolving credit agreement	(22)	(196)	—
Purchase of additional ownership from non-controlling interest	—	—	(32,400)
Proceeds from non-controlling interest for investment in unconsolidated entity	—	—	988
Proceeds from non-controlling interest for investment in Peirce-Phelps, Inc.	—	—	17,000
Net proceeds from issuances of common stock	21,014	19,257	13,341
Proceeds from non-controlling interest for investment in TEC Distribution LLC	21,040	—	—
Net proceeds (repayments) under revolving credit agreement	89,000	(155,700)	20,500
Net cash used in financing activities	(228,602)	(448,493)	(264,023)
Effect of foreign exchange rate changes on cash and cash equivalents	(186)	2,069	849
Net (decrease) increase in cash and cash equivalents	(27,799)	71,613	(8,440)
Cash and cash equivalents at beginning of year	146,067	74,454	82,894
Cash and cash equivalents at end of year	\$ 118,268	\$ 146,067	\$ 74,454

Supplemental cash flow information (Note 22)

See accompanying notes to consolidated financial statements.

WATSCO, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except share and per share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization, Consolidation and Presentation

Watsco, Inc. (collectively with its subsidiaries, “Watsco,” “we,” “us,” or “our”) was incorporated in Florida 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 in North America. At December 31, 2021, we operated from 671 locations in 42 U.S. states, Canada, Mexico, and Puerto Rico with additional market coverage on an export basis to portions of Latin America and the Caribbean.

The consolidated financial statements include the accounts of Watsco, all of its wholly owned subsidiaries, the accounts of four joint ventures with Carrier Global Corporation, which we refer to as Carrier, the accounts of Carrier InterAmerica Corporation, of which we have an 80% controlling interest and Carrier has a 20% non-controlling interest, and our 38.1% investment in Russell Sigler, Inc. (“RSI”), which is accounted for under the equity method of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

Impact of COVID-19 Pandemic

Since COVID-19 was declared a pandemic in March 2020, it has impacted our operations and the operations of our customers and suppliers. Although we learned to navigate COVID-19 while maintaining our operations in all material respects, the pandemic continued to impact our business and operating results throughout 2020 and into 2021. However, as economic activity has been recovering and the effects of the pandemic lessened in 2021, the impact of the pandemic on our business has been more reflective of greater economic and marketplace dynamics, which include supply chain disruptions and labor shortages, rather than pandemic-related issues such as quarantines, location closures, mandated restrictions, employee illnesses, and travel restrictions. The extent to which the COVID-19 pandemic impacts our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, potential subsequent waves of COVID-19 infection or potential new variants, the effectiveness and adoption of COVID-19 vaccines and therapeutics, the ultimate duration and scope of the pandemic, its impact on our employees, customers and suppliers, the broader implications of the macro-economic recovery on our business, and the extent to which normal economic and operating conditions are impacted. Therefore, we cannot reasonably estimate the future impact at this time.

Foreign Currency Translation and Transactions

The functional currency of our operations in Canada is the Canadian dollar. Foreign currency denominated assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date, and income and expense items are translated at the average exchange rates in effect during the applicable period. The aggregate effect of foreign currency translation is recorded in accumulated other comprehensive loss in our consolidated balance sheets. Our net investment in our Canadian operations is recorded at the historical rate and the resulting foreign currency translation adjustments are included in accumulated other comprehensive loss in our consolidated balance sheets. Gains or losses resulting from transactions denominated in U.S. dollars are recognized in earnings primarily within cost of sales in our consolidated statements of income.

Our operations in Mexico 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 Mexican pesos are recognized in earnings primarily within selling, general and administrative expenses in our consolidated statements of income.

Equity Method Investments

Investments in which we have the ability to exercise significant influence, but do not control, are accounted for under the equity method of accounting and are included in investment in unconsolidated entity in our consolidated balance sheets. Under this method of accounting, our proportionate share of the net income or loss of the investee is included in other income in our consolidated statements of income. The excess, if any, of the carrying amount of our investment over our ownership percentage in the underlying net assets of the investee is attributed to certain fair value adjustments with the remaining portion recognized as goodwill.

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Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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, net realizable value adjustments to inventories, income taxes, reserves related to loss contingencies and the valuation of goodwill, indefinite-lived intangible assets and long-lived 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.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily consist of trade receivables due from customers and are stated 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, including potential impacts of business and economic conditions. Upon determination that an account is uncollectible, the receivable balance is written off. At December 31, 2021 and 2020, the allowance for doubtful accounts totaled \$11,315 and \$7,087, respectively.

Inventories

Inventories consist of air conditioning, heating and refrigeration equipment and related parts and supplies and are valued at the lower of cost using the first-in, first-out and weighted-average cost basis methods, or net realizable value. As part of the valuation process, inventories are adjusted to reflect excess, slow-moving and damaged inventories at their estimated net realizable value. Inventory 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 and Purchase Discounts

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 our estimates of earned vendor rebates based on actual purchase levels. At December 31, 2021 and 2020, we had \$22,692 and \$13,434, 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. Vendor rebates that are earned based on products sold are credited directly to cost of sales in our consolidated statements of income.

We also have vendors that offer a cash discount when we pay their invoice within a specified period of time. We account for such cash discounts as a reduction of inventory until we sell the product at which time such cash discounts are reflected as a reduction of cost of sales in our consolidated statements of income. At December 31, 2021 and 2020, we had \$17,893 and \$12,029, respectively, of cash discounts recorded as a reduction of inventory.

Equity Securities

Investments in equity securities are recorded at fair value using the specific identification method and are included in other assets in our consolidated balance sheets. Changes in the fair value of equity securities and dividend income are recognized in our consolidated statements of income.

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. Machinery, vehicles, and equipment are depreciated over estimated useful lives ranging from 3-10 years. Computer hardware and software are depreciated over estimated useful lives ranging from 3-10 years. Furniture and fixtures are depreciated over estimated useful lives ranging from 5-7 years.

Operating and Finance Leases

We have operating leases for real property, vehicles and equipment, and finance leases primarily for vehicles. Operating leases are included in operating lease right-of-use (“ROU”) assets, current portion of long-term obligations, and operating lease liabilities, net of current portion in our consolidated balance sheets. Finance leases are not considered significant to our consolidated balance sheets or consolidated statements of income. Finance lease ROU assets at December 31, 2021 and 2020, of \$11,489 and \$6,232, respectively, are included in property and equipment, net in our consolidated balance sheets. Finance lease liabilities at December 31, 2021 and 2020, of \$11,762 and \$6,383, respectively, are included in current portion of long-term obligations and finance lease liabilities, net of current portion in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the applicable commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at the commencement dates of the respective leases in determining the present value of the applicable lease payments.

Operating lease ROU assets also include any lease pre-payments made and exclude lease incentives. Certain of our leases include variable payments, which are excluded from lease ROU assets and lease liabilities and expensed as incurred. Our leases have remaining lease terms of 1-10 years, some of which include options to extend the leases for up to five years. The exercise of lease renewal options is at our sole discretion, and our lease ROU assets and liabilities reflect only the options we are reasonably certain that we will exercise. Certain real property lease agreements have lease and non-lease components, which are generally accounted for as a single lease component. Lease expense for lease payments is recognized on a straight-line basis over the lease term. Lease payments for short-term leases, which are 12 months or less without a purchase option that is likely to be exercised, are recognized as lease cost on a straight-line basis over the lease term.

Practical Expedients

We elected the practical expedients related to short-term leases and separating lease components from non-lease components for all underlying asset classes.

Goodwill and 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 annually or more frequently when an event occurs or circumstances change that indicate that the carrying value may not be recoverable. We test goodwill for impairment by comparing the fair value of our reporting unit to its carrying value. If the fair value is determined to be less than the carrying value, an impairment charge would be recognized. On January 1, 2022, we performed our annual evaluation of goodwill impairment and determined that the estimated fair value of our reporting unit exceeded its carrying value.

Intangible assets primarily consist of the value of trade names and trademarks, distributor agreements, customer relationships and patented and unpatented technology. 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 were no events or circumstances identified from the date of our assessment that would require an update to our annual impairment tests.

Long-Lived Assets

Long-lived assets, other than goodwill and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the 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. We measure the impairment loss 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, 2021, there were no such events or circumstances.

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Fair Value Measurements

We carry various assets and liabilities at fair value in the consolidated balance sheets. Fair value is defined as the price that would be received for 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. We generate our revenue primarily from the sale of finished products to customers; therefore, the significant majority of our contracts are short-term in nature and have only a single performance obligation to deliver products; therefore, we satisfy our performance obligation under such contracts when we transfer control of the product to the customer. Some contracts contain a combination of product sales and services, the latter of which is distinct and accounted for as a separate performance obligation. We satisfy our performance obligations for services when we render the services within the agreed-upon service period. Total service revenue is not material and accounted for less than 1% of our consolidated revenues for all three years ended December 31, 2021, 2020 and 2019.

Revenue is recognized when control transfers to our customers when products are picked up or via shipment of products or delivery of services. We measure revenue as the amount of consideration we expect to be entitled to receive in exchange for those goods or services, net of any variable considerations (e.g., rights to return product, sales incentives, others) and any taxes collected from customers and subsequently remitted to governmental authorities. Revenue for shipping and handling charges is recognized when products are delivered to the customer.

Product Returns

We estimate product returns based on historical experience and record them on a gross basis on our balance sheets. Substantially all customer returns relate to products that are returned under manufacturers' warranty obligations. Accrued sales returns at December 31, 2021 and 2020 of \$16,707 and \$12,739, respectively, were included in accrued expenses and other current liabilities in our consolidated balance sheets.

Sales Incentives

We estimate sales incentives expected to be paid over the term of the program based on the most likely amounts. Sales incentives are accounted for as a reduction in the transaction price and are generally paid on an annual basis.

Practical Expedients

We generally expense sales commissions when incurred because the amortization period is one year or less. These costs are recorded within selling, general and administrative expenses. We do not disclose the value of unsatisfied performance obligations for contracts with an original expected length of one year or less.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2021, 2020, and 2019, were \$21,552, \$12,588, and \$16,587, 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 are included in selling, general and administrative expenses. Shipping and handling costs included in selling, general and administrative expenses for the years ended December 31, 2021, 2020, and 2019, were \$70,453, \$55,019, and \$54,783, respectively.

Share-Based Compensation

The fair value of stock option and non-vested restricted stock awards are expensed net of estimated forfeitures 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. Tax benefits resulting from tax deductions in excess of share-based compensation expense are recognized in our provision for income taxes in our consolidated statements of income.

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.

Diluted earnings per share reflects the dilutive effect of potential common shares from stock options. The dilutive effect of outstanding stock options is computed using the treasury stock method, which assumes any proceeds that could be obtained upon the exercise of stock options, would be used to purchase common stock at the average market price for the period. The assumed proceeds include the purchase price the optionee pays, the windfall tax benefit that we receive upon assumed exercise and the unrecognized compensation expense at the end of each period.

Derivative Instruments and Hedging Activity

We have used derivative instruments, including forward and option contracts and swaps, to manage our exposure to fluctuations in foreign currency exchange rates and interest rates. The use of these derivative instruments modifies the exposure of these risks with the intent to reduce the risk or cost to us. We use derivative instruments as risk management tools and not for trading purposes. All derivatives, whether designated as hedging relationships or not, are recorded on the balance sheet at fair value. Cash flows from derivative instruments are classified in the consolidated statements of cash flows in the same category as the cash flows from the items subject to the designated hedge or undesignated (economic) hedge relationships. The hedging designation may be classified as one of the following:

No Hedging Designation. The gain or loss on a derivative instrument not designated as an accounting hedging instrument is recognized in earnings within selling, general and administrative expenses.

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Cash Flow Hedge. A hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability is considered a cash flow hedge. The effective portion of the change in the fair value of a derivative that is designated as a cash flow hedge is recorded in other comprehensive income and reclassified to earnings as a component of cost of sales in the period for which the hedged transaction affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings.

Fair Value Hedge. A hedge of a recognized asset or liability or an unrecognized firm commitment is considered a fair value hedge. Fair value hedges, both the effective and ineffective portions of the changes in the fair value of the derivative, along with the gain or loss on the hedged item that is attributable to the hedged risk, are recorded in earnings.

See Note 17 for additional information pertaining to derivative instruments.

Loss Contingencies

Accruals are recorded for various contingencies including self-insurance, legal proceedings, environmental matters, and other claims that arise in the normal course of business. The estimation process contains uncertainty because accruals are based on judgment, the probability of losses and, where applicable, the consideration of opinions of external legal counsel and actuarially determined estimates. Additionally, we record receivables from third party insurers when recovery has been determined to be probable.

2. LEASES

The components of operating lease expense were as follows:

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Lease cost	\$ 90,742	\$82,543	\$74,755
Short-term lease cost	9,598	6,317	9,427
Variable lease cost	1,868	942	707
Sublease income	(332)	(228)	(226)
	<u>\$101,876</u>	<u>\$89,574</u>	<u>\$84,663</u>

Supplemental balance sheet information related to operating leases were as follows:

<u>December 31,</u>	<u>2021</u>	<u>2020</u>
ROU assets	\$ 268,528	\$ 209,169
Current portion of operating lease liabilities	\$ 81,928	\$ 70,232
Operating lease liabilities	187,024	139,527
Total operating lease liabilities	<u>\$ 268,952</u>	<u>\$ 209,759</u>
Weighted Average Remaining Lease Term (in years)	4.4 years	3.5 years
Weighted Average Discount Rate	3.29%	4.00%

Supplemental cash flow information related to operating leases were as follows:

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Operating cash flows for the measurement of operating lease liabilities	\$ 91,063	\$80,921	\$ 75,357
Operating lease ROU assets obtained in exchange for operating lease obligations	\$141,198	\$59,093	\$290,422

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At December 31, 2021, maturities of operating lease liabilities over each of the next five years and thereafter were as follows:

2022	\$ 89,322
2023	71,985
2024	49,245
2025	31,995
2026	19,662
Thereafter	26,837
Total lease payments	289,046
Less imputed interest	20,094
Total lease liability	<u>\$268,952</u>

At December 31, 2021, we had additional operating leases, primarily for real property, that had not yet commenced. Such leases had estimated future minimum rental commitments of approximately \$39,700. These operating leases are expected to commence in 2022 with lease terms of 5-11 years. These undiscounted amounts are not included in the table above.

3. REVENUES

Disaggregation of Revenues

The following table presents our revenues disaggregated by primary geographical regions and major product lines within our single reporting segment:

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Primary Geographical Regions:			
United States	\$5,636,929	\$4,535,262	\$4,184,206
Canada	386,780	301,727	294,040
Latin America and the Caribbean	256,483	217,939	292,116
	<u>\$6,280,192</u>	<u>\$5,054,928</u>	<u>\$4,770,362</u>
Major Product Lines:			
HVAC equipment	69%	69%	68%
Other HVAC products	28%	28%	28%
Commercial refrigeration products	3%	3%	4%
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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4. EARNINGS PER SHARE

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

<i>Years Ended December 31,</i>	2021	2020	2019
Basic Earnings per Share:			
Net income attributable to Watsco, Inc. shareholders	\$ 418,945	\$ 269,579	\$ 245,950
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	37,273	23,140	20,412
Earnings allocated to Watsco, Inc. shareholders	<u>\$ 381,672</u>	<u>\$ 246,439</u>	<u>\$ 225,538</u>
Weighted-average common shares outstanding—Basic	<u>35,244,230</u>	<u>35,069,516</u>	<u>34,644,700</u>
Basic earnings per share for Common and Class B common stock	<u>\$ 10.83</u>	<u>\$ 7.03</u>	<u>\$ 6.51</u>
Allocation of earnings for Basic:			
Common stock	\$ 353,873	\$ 228,361	\$ 208,779
Class B common stock	27,799	18,078	16,759
	<u>\$ 381,672</u>	<u>\$ 246,439</u>	<u>\$ 225,538</u>
Diluted Earnings per Share:			
Net income attributable to Watsco, Inc. shareholders	\$ 418,945	\$ 269,579	\$ 245,950
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	37,222	23,140	20,411
Earnings allocated to Watsco, Inc. shareholders	<u>\$ 381,723</u>	<u>\$ 246,439</u>	<u>\$ 225,539</u>
Weighted-average common shares outstanding—Basic	<u>35,244,230</u>	<u>35,069,516</u>	<u>34,644,700</u>
Effect of dilutive stock options	179,608	81,055	30,941
Weighted-average common shares outstanding—Diluted	<u>35,423,838</u>	<u>35,150,571</u>	<u>34,675,641</u>
Diluted earnings per share for Common and Class B common stock	<u>\$ 10.78</u>	<u>\$ 7.01</u>	<u>\$ 6.50</u>

Diluted earnings per share for our Common stock assumes the conversion of all our Class B common stock into Common stock as of the beginning of the fiscal year; therefore, no allocation of earnings to Class B common stock is required. At December 31, 2021, 2020, and 2019, our outstanding Class B common stock was convertible into 2,566,990, 2,572,536, and 2,574,336 shares of our Common stock, respectively.

Diluted earnings per share excluded 40,529, 19,722, and 205,380 shares for the years ended December 31, 2021, 2020, and 2019, 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.

5. OTHER COMPREHENSIVE INCOME

Other comprehensive income consists of the foreign currency translation adjustment associated with our Canadian operations' use of the Canadian dollar as their functional currency and changes in the unrealized gains (losses) on cash flow hedging instruments. The tax effects allocated to each component of other comprehensive income were as follows:

<i>Years Ended December 31,</i>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Foreign currency translation adjustment	\$ 936	\$6,272	\$12,298
Unrealized gain (loss) on cash flow hedging instruments	97	1,205	(2,001)
Income tax (expense) benefit	(27)	(325)	540
Unrealized gain (loss) on cash flow hedging instruments, net of tax	<u>70</u>	<u>880</u>	<u>(1,461)</u>
Reclassification of loss (gain) on cash flow hedging instruments into earnings	305	(574)	(482)
Income tax (benefit) expense	(86)	156	130
Reclassification of loss (gain) on cash flow hedging instruments into earnings, net of tax	<u>219</u>	<u>(418)</u>	<u>(352)</u>
Other comprehensive income	<u>\$1,225</u>	<u>\$6,734</u>	<u>\$10,485</u>

The changes in each component of accumulated other comprehensive loss, net of tax, were as follows:

<i>Years Ended December 31,</i>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Foreign currency translation adjustment:			
Beginning balance	\$ (34,694)	\$ (38,599)	\$ (46,604)
Current period other comprehensive income	518	3,905	8,005
Ending balance	<u>(34,176)</u>	<u>(34,694)</u>	<u>(38,599)</u>
Cash flow hedging instruments:			
Beginning balance	(173)	(451)	636
Current period other comprehensive income (loss)	43	528	(876)
Reclassification adjustment	130	(250)	(211)
Ending balance	<u>—</u>	<u>(173)</u>	<u>(451)</u>
Accumulated other comprehensive loss, net of tax	<u>\$ (34,176)</u>	<u>\$ (34,867)</u>	<u>\$ (39,050)</u>

6. SUPPLIER CONCENTRATION

Purchases from our top ten suppliers comprised 83%, 85%, and 83% of all purchases made in 2021, 2020, and 2019, respectively. Our largest supplier, Carrier and its affiliates, accounted for 61%, 63%, and 62% of all purchases made in 2021, 2020, and 2019, respectively. See Note 20. A significant interruption by Carrier, or any of our other key suppliers, in the delivery of products could impair our ability to maintain current inventory levels and could materially impact our consolidated results of operations and consolidated financial position.

At December 31, 2021, \$78,454 was recorded as a reduction of inventory related to pricing claim advances, of which \$59,644 was provided by Carrier and its affiliates.

At December 31, 2020, \$68,182 was recorded as a reduction of inventory related to pricing claim advances, of which \$54,593 was provided by Carrier and its affiliates.

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7. PROPERTY AND EQUIPMENT

Property and equipment, net, consists of:

<i>December 31,</i>	<u>2021</u>	<u>2020</u>
Land	\$ 676	\$ 741
Buildings and improvements	85,857	80,877
Machinery, vehicles, and equipment	108,110	92,577
Computer hardware and software	68,762	62,776
Furniture and fixtures	21,404	19,077
	<u>284,809</u>	<u>256,048</u>
Accumulated depreciation and amortization	<u>(173,790)</u>	<u>(157,823)</u>
	<u>\$ 111,019</u>	<u>\$ 98,225</u>

Depreciation and amortization expense related to property and equipment included in selling, general and administrative expenses for the years ended December 31, 2021, 2020, and 2019, were \$22,566, \$19,963, and \$18,808, respectively.

8. DEBT

We maintain an unsecured, \$560,000 syndicated multicurrency revolving credit agreement, which we use to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends (if and as declared by our Board of Directors), capital expenditures, stock repurchases and issuances of letters of credit. The credit facility has a seasonal component from October 1 to March 31, during which the borrowing capacity may be reduced to \$460,000 at our discretion (which effectively reduces fees payable in respect of the unused portion of the commitment), and we effected this reduction in 2021. Included in the credit facility are a \$100,000 swingline subfacility, a \$10,000 letter of credit subfacility, a \$75,000 alternative currency borrowing sublimit and an \$8,000 Mexican borrowing sublimit. The credit agreement matures on December 5, 2023.

Borrowings under the credit facility bear interest at either LIBOR-based rates plus a spread, which ranges from 87.5 to 150.0 basis-points (LIBOR plus 87.5 basis-points at December 31, 2021), depending on our ratio of total debt to EBITDA, or on rates based on the highest of the Federal Funds Effective Rate plus 0.5%, the Prime Rate or the Eurocurrency Rate plus 1.0%, in each case plus a spread which ranges from 0 to 50.0 basis-points (0 basis-points at December 31, 2021), depending on our ratio of total debt to EBITDA. We pay a variable commitment fee on the unused portion of the commitment under the revolving credit agreement, ranging from 7.5 to 20.0 basis-points (7.5 basis-points at December 31, 2021). During 2021 and 2020, we paid fees of \$22 and \$196, respectively, in connection with the increase in the aggregate borrowing capacity of our revolving credit agreement, which are being amortized ratably through the maturity of the facility in December 2023.

At December 31, 2021 \$89,000 was outstanding under the revolving credit agreement. At December 31, 2020 there was no outstanding balance under the revolving credit agreement. The revolving credit agreement contains customary affirmative and negative covenants, including financial covenants with respect to consolidated leverage and interest coverage ratios, and other customary restrictions. We believe we were in compliance with all covenants at December 31, 2021.

[Table of Contents](#)**9. INCOME TAXES**

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

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current:			
U.S. Federal	\$ 91,162	\$58,895	\$48,359
State	20,703	12,909	9,362
Foreign	10,993	4,779	8,078
	<u>122,858</u>	<u>76,583</u>	<u>65,799</u>
Deferred:			
U.S. Federal	6,434	218	2,603
State	1,374	21	446
Foreign	(1,869)	(199)	(1,771)
	<u>5,939</u>	<u>40</u>	<u>1,278</u>
Income tax expense	<u>\$128,797</u>	<u>\$76,623</u>	<u>\$67,077</u>

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

Following is a reconciliation of the effective income tax rate:

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
U.S. federal statutory rate	21.0%	21.0%	21.0%
State income taxes, net of federal benefit and other	3.5	3.3	2.8
Excess tax benefits from share-based compensation	(1.7)	(2.1)	(1.8)
Tax effects on foreign income	0.4	0.3	0.5
GILTI	—	—	(0.1)
FDII	(0.1)	—	—
Change in valuation allowance	0.8	—	—
Tax credits and other	(0.5)	(0.5)	(1.2)
Effective income tax rate attributable to Watsco, Inc.	23.4	22.0	21.2
Taxes attributable to non-controlling interest	(2.9)	(2.8)	(2.7)
Effective income tax rate	<u>20.5%</u>	<u>19.2%</u>	<u>18.5%</u>

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The following is a summary of the significant components of our net deferred tax liabilities:

<u>December 31,</u>	<u>2021</u>	<u>2020</u>
Deferred tax assets:		
Share-based compensation	\$ 30,854	\$ 27,223
Capitalized inventory costs and inventory adjustments	3,449	3,189
Allowance for doubtful accounts	1,328	949
Self-insurance reserves	1,027	518
Other	6,081	5,090
Net operating loss carryforwards	3,959	2,930
	<u>46,698</u>	<u>39,899</u>
Valuation allowance	(5,107)	(668)
Total deferred tax assets	<u>41,591</u>	<u>39,231</u>
Deferred tax liabilities:		
Deductible goodwill	(82,704)	(78,288)
Depreciation	(18,744)	(16,441)
Other	(8,794)	(7,050)
Total deferred tax liabilities	<u>(110,242)</u>	<u>(101,779)</u>
Net deferred tax liabilities (1)	<u>\$ (68,651)</u>	<u>\$ (62,548)</u>

(1) Net deferred tax liabilities have been included in the consolidated balance sheets in deferred income taxes and other liabilities.

Provisions of the Tax Cuts and Jobs Act of 2017 (the “TCJA”) such as the one-time repatriation transition tax and the global intangible low-taxed income (GILTI) for years beginning in 2018, effectively taxed the undistributed earnings previously deferred from U.S. federal and certain state income taxes and eliminate any additional US taxation resulting from repatriation of earnings on non-US subsidiaries. GILTI is a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. We have elected to provide for the tax expense related to GILTI in the year the tax was incurred as a period expense. As of December 31, 2021, we have accumulated undistributed earnings generated by our foreign subsidiaries of approximately \$114,000. Any additional taxes due with respect to such previously taxed earnings, if repatriated, would generally be limited to certain state income taxes and foreign withholding. Deferred taxes have been recorded for foreign withholding taxes on certain earnings of our foreign consolidated subsidiaries expected to be repatriated. We do not intend to distribute the remaining previously taxed foreign earnings and therefore have not recorded deferred taxes for certain state income taxes and foreign withholding on such earnings. The amount of certain state income taxes and foreign withholding that might be payable on the remaining amounts at December 31, 2021 is not practicable to estimate.

On March 11, 2021, the America Rescue Plan Act of 2021 (the “ARPA”) was enacted. The ARPA expanded IRC Section 162(m) to include five additional most highly compensated individuals. The expansion of Section 162(m) coverage is effective for tax years beginning after December 31, 2026. Unlike the employees subject to Section 162(m) by virtue of being the Chief Executive Officer (“CEO”), Chief Financial Officer, or three most highly compensated named executive officers, an employee who is identified as one of the “additional” five employees is not considered to be a covered employee indefinitely. The five additional employees will be subject to the annual \$1,000 cap on compensation, and will be determined annually.

Valuation allowances are provided to reduce the related deferred income tax assets to an amount which will, more likely than not, be realized. The valuation allowance was \$5,107 and \$668 at December 31, 2021 and 2020, respectively. The increase was primarily attributable to the impact on U.S. deferred tax assets from share-based compensation deduction limitations related to the expansion of IRC Section 162(m).

At December 31, 2021, there were state net operating loss carryforwards of \$15,595, which expire in varying amounts from 2026 through 2041. At December 31, 2021, there were foreign net operating loss carryforwards of \$14,977, which expire in varying amounts from 2036 through 2041. These amounts are available to offset future taxable income. There were no federal net operating loss carryforwards at December 31, 2021.

We are subject to United States 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 United States federal tax examinations for tax years prior to 2018. For the majority of states and foreign jurisdictions, we are no longer subject to tax examinations for tax years prior to 2017.

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At December 31, 2021 and 2020, the total amount of gross unrecognized tax benefits (excluding the federal benefit received from state positions) was \$6,727 and \$6,505, respectively. Of these totals, \$5,636 and \$5,461, 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. At December 31, 2021 and 2020, the cumulative amount of estimated accrued interest and penalties resulting from such unrecognized tax benefits was \$1,211 and \$982, respectively, and is included in deferred income taxes and other current liabilities in the accompanying consolidated balance sheets.

The changes in gross unrecognized tax benefits were as follows:

Balance at December 31, 2018	\$4,902
Additions based on tax positions related to the current year	1,027
Reductions due to lapse of applicable statute of limitations	(562)
Balance at December 31, 2019	5,367
Additions based on tax positions related to the current year	1,911
Reductions due to lapse of applicable statute of limitations	(773)
Balance at December 31, 2020	6,505
Additions based on tax positions related to the current year	1,143
Reductions due to lapse of applicable statute of limitations	(921)
Balance at December 31, 2021	<u>\$6,727</u>

10. SHARE-BASED COMPENSATION AND BENEFIT PLANS

Share-Based Compensation Plans

We have two share-based compensation plans for employees. The 2021 Incentive Compensation Plan (the “2021 Plan”) provides for the award of a broad variety of share-based compensation alternatives such as non-vested restricted stock, non-qualified stock options, incentive stock options, 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 2021 Plan consist of non-qualified stock options and non-vested restricted stock.

Under the 2021 Plan, the number of shares of Common and Class B common stock available for issuance is (i) 2,500,000, plus (ii) any shares of Common stock or Class B common stock that remained available for grant in connection with awards under the Watsco, Inc. 2014 Incentive Compensation Plan (the “2014 Plan”) on the date on which our shareholders approved the 2021 Plan (iii) shares underlying currently outstanding awards issued under the 2014 Plan, which shares become reissuable under the 2021 Plan to the extent that such underlying shares are not issued due to their forfeiture, expiration, termination or otherwise. A total of 125,995 shares of Common and Class B common stock, net of cancellations, had been awarded under the 2021 Plan as of December 31, 2021. As of December 31, 2021, 2,381,332 shares of common stock were reserved for future grants under the 2021 Plan. Options under the 2021 Plan vest over two to four years of service and have contractual terms of five years. Awards of non-vested restricted stock, which are granted at no cost to the employee, vest upon attainment of a specified age, generally toward the end of an employee’s career at age 62 or older. Vesting may be accelerated in certain circumstances prior to the original vesting date.

The 2014 Plan expired during 2021; therefore, no additional options may be granted. There were 498,138 options to exercise common stock outstanding under the 2014 Plan at December 31, 2021. Options under the 2014 Plan vest over two to four years of service and have contractual terms of five years.

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The following is a summary of stock option activity under the 2021 Plan and the 2014 Plan as of and for the year ended December 31, 2021:

	<u>Options</u>	<u>Weighted-Average Exercise Price</u>	<u>Weighted-Average Remaining Contractual Term (in years)</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding at December 31, 2020	585,116	\$ 174.83		
Granted	163,550	276.41		
Exercised	(130,178)	157.50		
Forfeited	(15,500)	208.77		
Expired	(500)	146.09		
Options outstanding at December 31, 2021	<u>602,488</u>	<u>\$ 205.30</u>	<u>3.11</u>	<u>\$ 64,816</u>
Options exercisable at December 31, 2021	<u>105,665</u>	<u>\$ 168.77</u>	<u>1.95</u>	<u>\$ 15,227</u>

The following is a summary of non-vested restricted stock activity as of and for the year ended December 31, 2021:

	<u>Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Non-vested restricted stock outstanding at December 31, 2020	3,335,107	\$ 75.00
Granted	194,643	254.73
Vested	(13,000)	138.97
Forfeited	(57,089)	131.31
Non-vested restricted stock outstanding at December 31, 2021	<u>3,459,661</u>	<u>\$ 83.94</u>

The weighted-average grant date fair value of non-vested restricted stock granted during 2021, 2020, and 2019 was \$254.73, \$193.89, and \$151.58, respectively. The fair value of non-vested restricted stock that vested during 2021, 2020, and 2019 was \$3,646, \$7,354, and \$4,931, respectively.

During 2021, 3,858 shares of Class B common stock with an aggregate fair market value of \$1,078 were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of restricted stock. During 2020, 11,693 shares of Common and Class B common stock with an aggregate fair market value of \$2,299 were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of restricted stock. During 2019, 9,824 shares of Common and Class B common stock with an aggregate fair market value of \$1,518 were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of restricted stock. These shares were retired upon delivery.

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. 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 believe 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 United States 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.

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The following table presents the weighted-average assumptions used for stock options granted:

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Expected term in years	4.25	4.25	4.25
Risk-free interest rate	0.79%	0.26%	1.64%
Expected volatility	21.85%	20.89%	18.01%
Expected dividend yield	2.97%	3.69%	3.99%
Grant date fair value	\$34.79	\$20.76	\$14.81

Exercise of Stock Options

The total intrinsic value of stock options exercised during 2021, 2020, and 2019 was \$16,903, \$8,753, and \$4,153, respectively. Cash received from the exercise of stock options during 2021, 2020, and 2019 was \$19,338, \$17,608, and \$11,703, respectively. The tax benefit from stock option exercises during 2021, 2020, and 2019 was \$3,595, \$1,586, and \$626, respectively. During 2021, 2020, and 2019, 4,040 shares of Common stock with an aggregate fair market value of \$1,179, 11,455 shares of Common stock with an aggregate fair market value of \$2,343 and 799 shares of Common stock with an aggregate fair market value of \$134, respectively, were withheld as payment in lieu of cash for stock option exercises and related tax withholdings. These shares were retired upon delivery.

Share-Based Compensation Expense

The following table provides information on share-based compensation expense:

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Stock options	\$ 2,908	\$ 2,447	\$ 2,440
Non-vested restricted stock	22,457	19,682	14,592
Share-based compensation expense	<u>\$25,365</u>	<u>\$22,129</u>	<u>\$17,032</u>

At December 31, 2021, there was \$5,770 of unrecognized pre-tax compensation expense related to stock options granted under the 2021 Plan, which is expected to be recognized over a weighted-average period of approximately 1.9 years. The total fair value of stock options that vested during 2021, 2020, and 2019 was \$2,621, \$2,177, and \$2,055, respectively.

At December 31, 2021, there was \$180,661 of unrecognized pre-tax compensation expense related to non-vested restricted stock, which is expected to be recognized over a weighted-average period of approximately 11.8 years. Of this amount, approximately \$55,000 is related to awards granted to our CEO, of which approximately \$1,000, \$26,000, \$27,000, and \$1,000 vest in approximately 1, 5, 7, and 8 years upon his attainment of age 82, 86, 88, and 89, respectively, and approximately \$31,000 is related to awards granted to our President, of which approximately \$30,000 and \$1,000 vest in approximately 22 and 24 years upon his attainment of age 62 and 64, respectively. 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 with a corresponding tax benefit. At December 31, 2021, we were obligated to issue 32,592 shares of non-vested restricted stock to our CEO that vest in 7 years, 31,668 shares of non-vested restricted stock to our President that vest in 22 years, and 18,540 shares of non-vested restricted stock to various key leaders that vest in 5-14 years in connection with 2021's performance-based incentive compensation program.

Employee Stock Purchase Plan

The Watsco, Inc. Fourth 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 ESPP allows participating employees to purchase shares of Common stock at a 5% discount to the fair market value at specified times. During 2021, 2020, and 2019, employees purchased 3,501, 5,121, and 5,676 shares of Common stock at an average price of \$239.11, \$171.89, and \$145.09 per share, respectively. Cash dividends received by the ESPP were reinvested in Common stock and resulted in the issuance of 2,962, 3,964, and 5,087 additional shares during 2021, 2020, and 2019, respectively. We received net proceeds of \$1,676, \$1,649, and \$1,638, respectively, during 2021, 2020, and 2019, for shares of our Common stock purchased under the ESPP. At December 31, 2021, 450,945 shares remained available for purchase under the ESPP.

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, 2021, 2020, and 2019, we issued 22,752, 25,216, and 30,715 shares of Common stock, respectively, to the plan, representing the Common stock discretionary matching contribution of \$5,154, \$4,543 and \$4,274, respectively.

11. PURCHASE OF REMAINING OWNERSHIP INTEREST IN JOINT VENTURE

Effective May 31, 2019, we purchased an additional 20% ownership interest in Homans Associates II LLC (“Homans”) from our second joint venture with Carrier, Carrier Enterprise Northeast, LLC, which we refer to as Carrier Enterprise II, for cash consideration of \$32,400, which increased our ownership in Homans to 100%. Homans previously operated as a division of Carrier Enterprise II and subsequent to the purchase operates as a wholly owned subsidiary of the Company with 25 locations in the Northeastern U.S.

12. INVESTMENT IN UNCONSOLIDATED ENTITY

On June 21, 2017, our first joint venture with Carrier, Carrier Enterprise, LLC, which we refer to as Carrier Enterprise I, acquired a 34.9% ownership interest in RSI, an HVAC distributor operating from 34 locations in the Western U.S. We have an 80% controlling interest in Carrier Enterprise I, and Carrier has a 20% non-controlling interest. Carrier Enterprise I acquired its ownership interest in RSI for cash consideration of \$63,600, of which we contributed \$50,880 and Carrier contributed \$12,720. Effective June 29, 2018, Carrier Enterprise I acquired an additional 1.4% ownership interest in RSI, which increased Carrier Enterprise I’s ownership interest in RSI to 36.3% for cash consideration of \$3,760, of which we contributed \$3,008 and Carrier contributed \$752. Effective April 22, 2019, Carrier Enterprise I acquired an additional 1.8% ownership interest in RSI for cash consideration of \$4,940, of which we contributed \$3,952 and Carrier contributed \$988. This acquisition increased Carrier Enterprise I’s ownership interest in RSI to 38.1%.

Carrier Enterprise I is a party to a shareholders’ agreement (the “Shareholders’ Agreement”) with RSI and its shareholders. Pursuant to the Shareholders’ Agreement, RSI’s shareholders have the right to sell, and Carrier Enterprise I has the obligation to purchase, their respective shares of RSI for a purchase price determined based on either book value or a multiple of EBIT, the latter of which Carrier Enterprise I used to calculate the price paid for its investment in RSI. RSI’s shareholders may transfer their respective shares of RSI common stock only to members of the Sigler family or to Carrier Enterprise I, and, at any time from and after the date on which Carrier Enterprise I owns 85% or more of RSI’s outstanding common stock, it has the right, but not the obligation, to purchase from RSI’s shareholders the remaining outstanding shares of RSI common stock. Additionally, Carrier Enterprise I has the right to appoint two of RSI’s six board members. Given Carrier Enterprise I’s 38.1% equity interest in RSI and its right to appoint two out of RSI’s six board members, this investment in RSI is accounted for under the equity method.

13. ACQUISITIONS

Makdad Industrial Supply Co., Inc.

On August 20, 2021, one of our wholly owned subsidiaries acquired Makdad Industrial Supply Co., Inc. (“MIS”), a distributor of air conditioning and heating products operating from six locations in Pennsylvania. Consideration for the purchase price consisted of \$3,117 in cash and the issuance of 3,627 shares of Common stock having a fair value of \$997, net of cash acquired of \$204. The purchase price resulted in the recognition of \$981 in goodwill. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

Acme Refrigeration of Baton Rouge LLC

On May 7, 2021, we acquired certain assets and assumed certain liabilities of Acme Refrigeration of Baton Rouge LLC (“ACME”), a distributor of air conditioning, heating, and refrigeration products, operating from 18 locations in Louisiana and Mississippi, for \$22,855 less certain average revolving indebtedness. We formed a new, wholly owned subsidiary, Acme Refrigeration LLC, that operates this business. Consideration for the net purchase price consisted of \$18,051 in cash, 8,492 shares of Common stock having a fair value of \$2,551, and \$3,141 for repayment of indebtedness, net of cash acquired of \$1,340. The purchase price resulted in the recognition of \$3,710 in goodwill and intangibles. The fair value of the identified intangible assets was \$2,124 and consisted of \$1,508 in trade names and distribution rights, and \$616 in customer relationships to be amortized over an 18-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

Temperature Equipment Corporation

On April 9, 2021, we acquired certain assets and assumed certain liabilities comprising the HVAC distribution business of Temperature Equipment Corporation, an HVAC distributor operating from 32 locations in Illinois, Indiana, Kansas, Michigan, Minnesota, Missouri and Wisconsin. We formed a new, stand-alone joint venture with Carrier, TEC Distribution

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LLC (“TEC”), that operates this business. We have an 80% controlling interest in TEC, and Carrier has a 20% non-controlling interest. Consideration for the purchase was paid in cash, consisting of \$105,200 paid to Temperature Equipment Corporation (Carrier contributed \$21,040 and we contributed \$84,160) and \$1,497 for repayment of indebtedness.

The purchase price resulted in the recognition of \$38,624 in goodwill and intangibles. The fair value of the identified intangible assets was \$19,900 and consisted of \$15,700 in trade names and distribution rights, and \$4,200 in customer relationships to be amortized over an 18-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

The table below presents the allocation of the total consideration to tangible and intangible assets acquired and liabilities assumed from the acquisition of our 80% controlling interest in TEC based on their respective fair values as of April 9, 2021:

Accounts receivable	\$ 33,315
Inventories	71,325
Other current assets	962
Property and equipment	2,590
Operating lease ROU assets	53,829
Goodwill	18,724
Intangibles	19,900
Accounts payable	(25,393)
Accrued expenses and other current liabilities	(20,509)
Operating lease liabilities, net of current portion	(48,046)
Total	<u>\$106,697</u>

N&S Supply of Fishkill, Inc.

On November 26, 2019, one of our wholly owned subsidiaries acquired certain assets and assumed certain liabilities of N&S Supply of Fishkill, Inc. (“N&S”), a distributor of air conditioning, heating and plumbing products operating from seven locations in New York and Connecticut. The purchase price was composed of cash consideration of \$12,000, the issuance of 22,435 shares of Common stock having a fair value of \$3,871, net of a discount for lack of marketability, and the repayment of certain indebtedness. The purchase price resulted in the recognition of \$4,672 in goodwill and intangibles. The fair value of the identified intangible assets was \$1,540 and consisted of \$770 trade names and distribution rights, and \$770 in customer relationships to be amortized over an 18-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

Peirce-Phelps, Inc.

On August 1, 2019, Carrier Enterprise I acquired substantially all the HVAC assets and assumed certain of the liabilities of Peirce-Phelps, Inc. (“PPI”), an HVAC distributor operating from 19 locations in Pennsylvania, New Jersey, and Delaware, for \$85,000 less certain average revolving indebtedness. Consideration for the net purchase price consisted of \$10,000 in cash, 372,543 shares of Common stock having a fair value of \$58,344, net of a discount for lack of marketability, and the repayment of certain average revolving indebtedness. Carrier contributed cash of \$17,000 to Carrier Enterprise I in connection with the acquisition of PPI.

The purchase price resulted in the recognition of \$28,884 in goodwill and intangibles. The fair value of the identified intangible assets was \$19,000 and consisted of \$13,500 in trade names and distribution rights, and \$5,500 in customer relationships to be amortized over an 18-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

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The table below presents the allocation of the total consideration to tangible and intangible assets acquired and liabilities assumed from the acquisition of PPI based on the respective fair values as of August 1, 2019:

Cash and cash equivalents	\$ 4,299
Accounts receivable	30,719
Inventories	45,491
Other current assets	135
Property and equipment	2,544
Operating lease ROU assets	19,072
Goodwill	9,884
Intangibles	19,000
Other assets	299
Accounts payable	(11,079)
Accrued expenses and other current liabilities	(13,038)
Operating lease liabilities, net of current portion	(14,100)
Total	<u>\$ 93,226</u>

Dunphey & Associates Supply Co., Inc.

On April 2, 2019, one of our wholly owned subsidiaries acquired certain assets and assumed certain liabilities of Dunphey & Associates Supply Co., Inc. ("DASCO"), a distributor of air conditioning and heating products operating from seven locations in New Jersey, New York and Connecticut, for cash consideration of \$16,758 and the issuance of 50,952 shares of Common stock having a fair value of \$6,891, net of a discount for lack of marketability. The purchase price resulted in the recognition of \$8,974 in goodwill and intangibles. The fair value of the identified intangible assets was \$5,300 and consisted of \$2,500 trade names and trademarks, and \$2,800 in customer relationships to be amortized over a 15-year period. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

The results of operations of these acquisitions have been included in the consolidated financial statements from their respective dates of acquisition. The pro forma effect of the acquisitions was not deemed significant to the consolidated financial statements.

14. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are as follows:

Balance at December 31, 2019	\$ 411,217
Acquired goodwill	410
Foreign currency translation adjustment	859
Balance at December 31, 2020	412,486
Acquired goodwill	21,291
Foreign currency translation adjustment	242
Balance at December 31, 2021	<u>\$ 434,019</u>

Intangible assets are comprised of the following:

<u>December 31,</u>	<u>Estimated Useful Lives</u>	<u>2021</u>	<u>2020</u>
Indefinite lived intangible assets—Trade names, trademarks, and distribution rights		\$ 158,389	\$ 140,867
Finite lived intangible assets:			
Customer relationships	7-18 years	86,526	81,527
Patented and unpatented technology	7 years	1,721	1,714
Trade name	10 years	1,150	1,150
Accumulated amortization		(60,890)	(55,329)
Finite lived intangible assets, net		<u>28,507</u>	<u>29,062</u>
		<u>\$ 186,896</u>	<u>\$ 169,929</u>

Amortization expense related to finite lived intangible assets included in selling, general and administrative expenses for the years ended December 31, 2021, 2020, and 2019, were \$5,561, \$5,945, and \$5,704, respectively.

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Annual amortization of finite lived intangible assets for the next five years is expected to approximate the following:

2022	\$4,500
2023	\$3,900
2024	\$3,700
2025	\$3,700
2026	\$3,500

15. 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, 2021 or 2020.

At-the-Market Offering Program

On August 6, 2021, we entered into a sales agreement with Robert W. Baird & Co. Inc. ("Baird"), which enables the Company to issue and sell shares of Common stock in one or more negotiated transactions or transactions that are deemed to be "at the market" offerings as defined in Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), for a maximum aggregate offering amount of up to \$300,000 (the "ATM Program"). The offer and sale of our Common stock pursuant to the ATM Program has been registered under the Securities Act pursuant to our automatically effective shelf registration statement on Form S-3 (File No. 333-260758).

As of December 31, 2021, no shares of Common stock had been sold under the ATM Program.

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 2021, 2020 or 2019. We last repurchased shares under this plan during 2008. 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. At December 31, 2021, there were 1,129,087 shares remaining authorized for repurchase under the program.

Common Stock Released from Escrow

On August 23, 2018 we issued 23,230 shares of Common stock into escrow as contingent consideration in connection with the acquisition of Alert Labs, Inc. The shares were subject to certain performance metrics within a three-year measurement period. The shares, and related cash dividends paid during the three-year period, were released to us from escrow as the performance metrics were not met. These shares were retired upon delivery.

16. 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 and borrowings under our revolving credit agreement. At December 31, 2021 and 2020, 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.

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The fair values of variable rate borrowings under our revolving credit agreement also approximate their carrying value based upon interest rates available for similar instruments with consistent terms and remaining maturities.

Off-Balance Sheet Financial Instruments

At December 31, 2021 and 2020, we were contingently liable under standby letters of credit for \$150 and \$1,075, respectively, which were required by leases for real property. Additionally, at December 31, 2021 and 2020, we were contingently liable under various performance bonds aggregating approximately \$7,900 and \$11,400, respectively, which are used as collateral to cover any contingencies related to our nonperformance under agreements with certain customers. We do not expect that any material losses or obligations will result from the issuance of the standby letter of credit or performance bonds because we expect to meet our obligations under our lease for real property and to certain customers in the ordinary course of business.

Concentrations of Credit Risk

Financial instruments which potentially subject us to concentrations of credit risk consist principally of accounts receivable. Concentrations of credit risk are limited due to the large number of customers comprising the customer base and their dispersion across many different geographical regions. We also have access to credit insurance programs which are used as an additional means to mitigate credit risk.

17. DERIVATIVES

We enter into foreign currency forward and option contracts to offset the earnings impact that foreign exchange rate fluctuations would otherwise have on certain monetary liabilities that are denominated in nonfunctional currencies.

Cash Flow Hedging Instruments

We enter into foreign currency forward contracts that are designated as cash flow hedges. The settlement of these derivatives results in reclassifications from accumulated other comprehensive loss to earnings for the period in which the settlement of these instruments occurs. The maximum period for which we hedge our cash flow using these instruments is 12 months. At December 31, 2021, no foreign currency forward contracts were designated as cash flow hedges.

The impact from foreign exchange derivative instruments designated as cash flow hedges was as follows:

<u>Years Ended December 31,</u>	<u>2021</u>	<u>2020</u>
Gain recorded in accumulated other comprehensive loss	\$ 97	\$1,205
Loss (gain) reclassified from accumulated other comprehensive loss into earnings	\$305	\$(574)

At December 31, 2021, no pre-tax gain (loss) is expected to be reclassified into earnings related to foreign exchange hedging within the next 12 months.

Derivatives Not Designated as Hedging Instruments

We have also entered into foreign currency forward and option contracts that are either not designated as hedges or did not qualify for hedge accounting. These derivative instruments were effective economic hedges for all of the periods presented. The fair value gains and losses on these contracts are recognized in earnings as a component of selling, general and administrative expenses. We had only one foreign currency exchange contract not designated as a hedging instrument at December 31, 2021, the total notional value of which was \$5,700, and such contract subsequently expired during January 2022.

We recognized losses of \$237, \$490, and \$540 from foreign currency forward and option contracts not designated as hedging instruments in our consolidated statements of income for 2021, 2020, and 2019, respectively.

The following table summarizes the fair value of derivative instruments, which consist solely of foreign exchange contracts, included in accrued expenses and other current liabilities in our consolidated balance sheets. See Note 18.

<u>December 31,</u>	<u>Asset Derivatives</u>		<u>Liability Derivatives</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Derivatives designated as hedging instruments	\$ —	\$ —	\$ —	\$ 91
Derivatives not designated as hedging instruments	—	—	5	10
Total derivative instruments	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5</u>	<u>\$ 101</u>

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18. FAIR VALUE MEASUREMENTS

The following tables present our assets and liabilities carried at fair value that are measured on a recurring basis:

	Balance Sheet Location	Total	Fair Value Measurements at December 31, 2021 Using		
			Level 1	Level 2	Level 3
Assets:					
Equity securities	Other assets	\$1,790	\$1,790	—	—
Private equities	Other assets	\$1,000	—	—	\$1,000
Liabilities:					
Derivative financial instruments	Accrued expenses and other current liabilities	\$ 5	—	\$ 5	—

	Balance Sheet Location	Total	Fair Value Measurements at December 31, 2020 Using		
			Level 1	Level 2	Level 3
Assets:					
Equity securities	Other assets	\$6,065	\$6,065	—	—
Liabilities:					
Derivative financial instruments	Accrued expenses and other current liabilities	\$ 101	—	\$ 101	—

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:

Equity securities – these investments are exchange-traded equity securities. Fair values for these investments are based on closing stock prices from active markets and are therefore classified within Level 1 of the fair value hierarchy.

Private equities – other investment in which fair value inputs are unobservable.

Derivative financial instruments – these derivatives are foreign currency forward and option contracts. See Note 17. Fair value is based on observable market inputs, such as forward rates in active markets; therefore, we classify these derivatives within Level 2 of the valuation hierarchy.

During 2021, we recognized a realized gain of \$3,815 recorded in our consolidated statement of income attributable to the sale of certain equity securities. There were no transfers in or out of Level 1 and Level 2 during 2020 or 2019.

19. 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 effect on 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. Reserves in the amounts of \$7,253 and \$5,404 at December 31, 2021 and 2020, respectively, were established related to such programs and are included in accrued expenses and other current liabilities in our consolidated balance sheets.

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Variable Interest Entity

As of December 31, 2021, 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 entity meets the definition of Variable Interest Entity (“VIE”); however, we do not meet the requirements to include this entity in the consolidated financial statements. At December 31, 2021, the maximum exposure to loss related to our involvement with this entity is limited to approximately \$6,200 and we have a cash deposit of approximately \$2,600 with them as collateral to cover any contingency related to additional risk assessments pertaining to our self-insurance programs. See “Self-Insurance” above for further information on commitments associated with the insurance programs. At December 31, 2021, there were no other entities that met the definition of a VIE.

Purchase Obligations

At December 31, 2021, we were obligated under various non-cancelable purchase orders with our key suppliers for goods aggregating approximately \$45,000, of which approximately \$31,000 is with Carrier and its affiliates.

20. RELATED PARTY TRANSACTIONS

Purchases from Carrier and its affiliates comprised 61%, 63%, and 62% of all inventory purchases made during 2021, 2020 and 2019, respectively. At December 31, 2021 and 2020, approximately \$90,000 and \$81,000, 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 2021, 2020, and 2019 included approximately \$108,000, \$103,000, and \$91,000, respectively, of sales to Carrier and its affiliates. We believe these transactions are conducted on terms equivalent to an arm’s-length basis in the ordinary course of business.

A member of our Board of Directors is the Senior Chairman of Greenberg Traurig, P.A., which serves as our principal outside counsel for compliance and acquisition-related legal services. During 2021, 2020, and 2019, fees for services performed were \$225, \$156, and \$187, respectively, and \$34 and \$8 was payable at December 31, 2021 and 2020, respectively.

21. INFORMATION ABOUT GEOGRAPHIC AREAS

Our operations are primarily within the United States, including Puerto Rico, Canada and Mexico. Products are also sold from the United States on an export-only basis to portions of Latin America and the Caribbean Basin. The following tables set forth revenues and long-lived assets by geographical area:

<i>Years Ended December 31,</i>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Revenues:			
United States	\$5,636,929	\$4,535,262	\$4,184,206
Canada	386,780	301,727	294,040
Latin America and the Caribbean	256,483	217,939	292,116
Total revenues	<u>\$6,280,192</u>	<u>\$5,054,928</u>	<u>\$4,770,362</u>

<i>December 31,</i>	<u>2021</u>	<u>2020</u>
Long-Lived Assets:		
United States	\$ 931,170	\$799,665
Canada	175,864	180,518
Latin America and the Caribbean	17,427	19,719
Total long-lived assets	<u>\$1,124,461</u>	<u>\$999,902</u>

Revenues are attributed to countries based on the location of the store from which the sale occurred. Long-lived assets consist primarily of goodwill and intangible assets, operating lease ROU assets, property and equipment, and our investment in an unconsolidated entity.

22. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow information was as follows:

<i>Years Ended December 31,</i>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Interest paid	\$ 913	\$ 1,844	\$ 4,341
Income taxes net of refunds	\$ 124,984	\$ 70,889	\$ 70,095
Common stock issued for MIS	\$ 997	—	—
Common stock issued for ACME	\$ 2,551	—	—
Common stock issued for N&S	—	\$ (161)	\$ 4,032
Common stock issued for PPI	—	—	\$ 58,344
Common stock issued for DASCO	—	—	\$ 6,891

23. SUBSEQUENT EVENTS

On February 8, 2022, our Board of Directors approved an increase to the quarterly cash dividend per share of Common and Class B common stock to \$2.20 per share from \$1.95 per share, beginning with the dividend that will be paid in April 2022.

SUBSIDIARIES OF THE REGISTRANT

The following table sets forth the significant subsidiaries of Watsco, Inc. as of December 31, 2021, and their respective incorporation jurisdictions. The names of various other wholly owned subsidiaries have been omitted. None of the foregoing omitted subsidiaries, considered either alone or in the aggregate as a single subsidiary, constitutes a significant subsidiary.

<u>Name of Subsidiary</u>	<u>State or Other Jurisdiction of Incorporation</u>	<u>Percent of Ownership</u>
Acme Refrigeration LLC	Delaware	100%
Alert Labs, Inc.	Ontario, Canada	100%
Baker Distributing Company LLC	Delaware	100%
Boreal International Corporation	Florida	100%
Carrier Enterprise Canada, L.P.	Ontario, Canada	60%
Carrier Enterprise Mexico S. de R.L. de C.V.	Mexico	80%
Carrier Enterprise Servicios Mexico S. de R.L. de C.V.	Mexico	80%
Expert TTL Solutions	Mexico	80%
Carrier Enterprise, LLC	Delaware	80%
Carrier Enterprise Northeast, LLC	Delaware	80%
Carrier InterAmerica Corporation	Delaware	80%
Carrier (Puerto Rico), Inc.	Delaware	80%
East Coast Metal Distributors LLC	Delaware	100%
Gemaire Distributors LLC	Delaware	100%
Heating & Cooling Supply LLC	California	100%
Homans Associates II LLC	Delaware	100%
N&S Supply LLC	Delaware	100%
Peirce-Phelps LLC	Delaware	80%
TEC Distribution LLC	Delaware	80%
Tradewinds Distributing Company, LLC	Delaware	100%

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Watsco, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-260758) on Form S-3 and (No. 333-256872, 333-197795, and 333-185345) on Form S-8 of our reports dated February 25, 2022, with respect to the consolidated financial statements of Watsco, Inc. and the effectiveness of internal control over financial reporting.

/s/ KPMG LLP

Miami, Florida
February 25, 2022

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 25, 2022

/s/ Albert H. Nahmad

Albert H. Nahmad
Chief Executive Officer

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 25, 2022

/s/ Barry S. Logan

Barry S. Logan

Executive Vice President

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 25, 2022

/s/ Ana M. Menendez

Ana M. Menendez
Chief Financial Officer

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, 2021, 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 Executive 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 25, 2022

/s/ Barry S. Logan

Barry S. Logan
Executive Vice President
February 25, 2022

/s/ Ana M. Menendez

Ana M. Menendez
Chief Financial Officer
February 25, 2022

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.