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

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**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2014

or

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

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

Commission file number 1-5581

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

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**watsco**

**WATSCO, INC.**

(a Florida Corporation)

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2665 South Bayshore Drive, Suite 901  
Miami, Florida 33133  
Telephone: (305) 714-4100

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares of each class of our common stock outstanding as of April 25, 2014 was (i) 30,094,577 shares of Common stock, \$0.50 par value per share, excluding 6,322,650 treasury shares, and (ii) 4,870,071 shares of Class B common stock, \$0.50 par value per share, excluding 48,263 treasury shares.

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WATSCO, INC. AND SUBSIDIARIES

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QUARTERLY REPORT ON FORM 10-Q

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**PART I. FINANCIAL INFORMATION****ITEM 1. CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS**

WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF INCOME  
(In thousands, except per share data)

	Quarters Ended March 31,	
	2014	2013
Revenues	<b>\$762,568</b>	\$713,633
Cost of sales	<b>574,499</b>	538,187
Gross profit	<b>188,069</b>	175,446
Selling, general and administrative expenses	<b>152,516</b>	144,892
Operating income	<b>35,553</b>	30,554
Interest expense, net	<b>1,009</b>	1,182
Income before income taxes	<b>34,544</b>	29,372
Income taxes	<b>10,141</b>	8,283
Net income	<b>24,403</b>	21,089
Less: net income attributable to noncontrolling interest	<b>7,650</b>	7,704
Net income attributable to Watsco, Inc.	<b>\$ 16,753</b>	\$ 13,385
Earnings per share for Common and Class B common stock:		
Basic	<b>\$ 0.48</b>	\$ 0.39
Diluted	<b>\$ 0.48</b>	\$ 0.39

*See accompanying notes to condensed consolidated unaudited financial statements.*

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WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands)

	<u>Quarters Ended March 31,</u>	
	<u>2014</u>	<u>2013</u>
Net income	<b>\$ 24,403</b>	<b>\$ 21,089</b>
Other comprehensive loss, net of tax		
Foreign currency translation adjustment	<b>(9,214)</b>	(2,885)
Unrealized gain on available-for-sale securities arising during the period	<b>1</b>	8
Other comprehensive loss	<b>(9,213)</b>	(2,877)
Comprehensive income	<b>15,190</b>	18,212
Less: comprehensive income attributable to noncontrolling interest	<b>3,810</b>	5,526
Comprehensive income attributable to Watsco, Inc.	<b><u>\$ 11,380</u></b>	<b><u>\$ 12,686</u></b>

*See accompanying notes to condensed consolidated unaudited financial statements.*

WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share data)

	March 31, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 19,457	\$ 19,478
Accounts receivable, net	394,873	399,565
Inventories	707,839	583,154
Other current assets	16,997	18,905
Total current assets	<u>1,139,166</u>	<u>1,021,102</u>
Property and equipment, net	44,072	45,418
Goodwill	390,125	392,610
Intangible assets, net	197,112	203,843
Other assets	6,381	6,558
	<u>\$1,776,856</u>	<u>\$1,669,531</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of other long-term obligations	\$ 109	\$ 107
Accounts payable	260,663	141,104
Accrued expenses and other current liabilities	92,403	102,295
Total current liabilities	<u>353,175</u>	<u>243,506</u>
Long-term obligations:		
Borrowings under revolving credit agreement	226,744	230,044
Other long-term obligations, net of current portion	485	513
Total long-term obligations	<u>227,229</u>	<u>230,557</u>
Deferred income taxes and other liabilities	68,403	68,076
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, \$0.50 par value	18,208	18,182
Class B common stock, \$0.50 par value	2,449	2,367
Preferred stock, \$0.50 par value	—	—
Paid-in capital	613,280	606,384
Accumulated other comprehensive loss, net of tax	(16,847)	(11,474)
Retained earnings	342,192	339,362
Treasury stock, at cost	(114,425)	(114,425)
Total Watsco, Inc. shareholders' equity	<u>844,857</u>	<u>840,396</u>
Noncontrolling interest	283,192	286,996
Total shareholders' equity	<u>1,128,049</u>	<u>1,127,392</u>
	<u>\$1,776,856</u>	<u>\$1,669,531</u>

See accompanying notes to condensed consolidated unaudited financial statements.

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WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS  
(In thousands)

	Quarters Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 24,403	\$ 21,089
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,434	4,300
Share-based compensation	2,488	2,298
Non-cash contribution to 401(k) plan	1,759	1,689
Provision for doubtful accounts	927	1,160
Excess tax benefits from share-based compensation	(131)	(50)
Other, net	961	769
Changes in operating assets and liabilities:		
Accounts receivable	1,992	(5,379)
Inventories	(126,316)	(102,122)
Accounts payable and other liabilities	112,346	57,522
Other, net	2,038	1,225
Net cash provided by (used in) operating activities	<u>24,901</u>	<u>(17,499)</u>
Cash flows from investing activities:		
Capital expenditures	(1,736)	(3,069)
Proceeds from sale of property and equipment	70	110
Net cash used in investing activities	<u>(1,666)</u>	<u>(2,959)</u>
Cash flows from financing activities:		
Dividends on Common and Class B common stock	(13,923)	(8,640)
Distributions to noncontrolling interest	(7,614)	(29,637)
Net (repayments) proceeds under revolving credit agreement	(2,553)	6,651
Net repayments of other long-term obligations	(26)	(1)
Excess tax benefits from share-based compensation	131	50
Net proceeds from issuances of common stock	873	497
Net cash used in financing activities	<u>(23,112)</u>	<u>(31,080)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(144)	(199)
Net decrease in cash and cash equivalents	(21)	(51,737)
Cash and cash equivalents at beginning of period	19,478	73,770
Cash and cash equivalents at end of period	<u>\$ 19,457</u>	<u>\$ 22,033</u>

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS  
March 31, 2014  
(In thousands, except share and per share data)

**1. BASIS OF PRESENTATION**

**Basis of Consolidation**

Watsco, Inc. and its subsidiaries (collectively, "Watsco," which may be referred to as "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. The accompanying March 31, 2014 interim condensed consolidated unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in the annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to those rules and regulations, but we believe the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments, consisting of normal and recurring adjustments, necessary for a fair presentation have been included in the condensed consolidated unaudited financial statements included herein. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2013 Annual Report on Form 10-K.

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

The results of operations for the quarter ended March 31, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014. Sales of residential central air conditioners, heating equipment and parts and supplies are seasonal. Furthermore, results of operations can be impacted favorably or unfavorably based on weather patterns during summer and winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the fourth quarter. Demand related to the new construction market is fairly consistent during the year, subject to weather and economic conditions, including their effect on the number of housing completions.

**Use of Estimates**

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

**New Accounting Standards**

*Presentation of Unrecognized Tax Benefits*

In July 2013, the Financial Accounting Standards Board issued guidance that requires the presentation of an unrecognized tax benefit as a reduction to a deferred tax asset for a net operating loss carryforward rather than as a liability when the uncertain tax position would reduce the net operating loss under the tax law of the applicable jurisdiction and the entity intends to use the deferred tax asset for that purpose. This guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2013. The adoption of this guidance did not have an impact on our condensed consolidated unaudited financial statements.

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### 2. EARNINGS PER SHARE

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

<i>Quarters Ended March 31,</i>	<u>2014</u>	<u>2013</u>
<b>Basic Earnings per Share:</b>		
Net income attributable to Watsco, Inc. shareholders	\$ 16,753	\$ 13,385
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	<u>1,242</u>	<u>937</u>
Earnings allocated to Watsco, Inc. shareholders	<u>\$ 15,511</u>	<u>\$ 12,448</u>
Weighted-average common shares outstanding – Basic	<u>32,249,988</u>	<u>32,157,729</u>
Basic earnings per share for Common and Class B common stock	\$ 0.48	\$ 0.39
Allocation of earnings for Basic:		
Common stock	\$ 14,211	\$ 11,401
Class B common stock	<u>1,300</u>	<u>1,047</u>
	<u>\$ 15,511</u>	<u>\$ 12,448</u>
<b>Diluted Earnings per Share:</b>		
Net income attributable to Watsco, Inc. shareholders	\$ 16,753	\$ 13,385
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	<u>1,242</u>	<u>937</u>
Earnings allocated to Watsco, Inc. shareholders	<u>\$ 15,511</u>	<u>\$ 12,448</u>
Weighted-average common shares outstanding – Basic	<u>32,249,988</u>	<u>32,157,729</u>
Effect of dilutive stock options	<u>55,457</u>	<u>55,711</u>
Weighted-average common shares outstanding – Diluted	<u>32,305,445</u>	<u>32,213,440</u>
Diluted earnings per share for Common and Class B common stock	\$ 0.48	\$ 0.39

Diluted earnings per share for our Common stock assumes the conversion of all of our Class B common stock into Common stock as of the beginning of the fiscal year; therefore, no allocation of earnings to Class B common stock is required. At March 31, 2014 and 2013, our outstanding Class B common stock was convertible into 2,702,815 and 2,705,465 shares of our Common stock, respectively.

Diluted earnings per share excluded 500 shares for the quarter ended March 31, 2014 related to stock options with an exercise price per share greater than the average market value of our common stock, resulting in an anti-dilutive effect on diluted earnings per share. No shares were excluded from diluted earnings per share for the quarter ended March 31, 2013.

### 3. OTHER COMPREHENSIVE LOSS

Other comprehensive loss 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 gain on available-for-sale securities. The tax effects allocated to each component of other comprehensive loss were as follows:

<i>Quarters Ended March 31,</i>	<u>2014</u>	<u>2013</u>
Foreign currency translation adjustment	<u>\$(9,214)</u>	<u>\$(2,885)</u>
Unrealized gain on available-for-sale securities	2	14
Income tax expense	<u>(1)</u>	<u>(6)</u>
Unrealized gain on available-for-sale securities, net of tax	<u>1</u>	<u>8</u>
Other comprehensive loss	<u>\$(9,213)</u>	<u>\$(2,877)</u>

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The changes in accumulated other comprehensive loss, net of tax, are as follows:

<i>Quarters Ended March 31,</i>	2014	2013
<b>Foreign currency translation adjustment:</b>		
Beginning balance	\$ (11,181)	\$(1,785)
Current period other comprehensive loss	(5,374)	(2,885)
Ending balance	<u>(16,555)</u>	<u>(4,670)</u>
<b>Available-for-sale securities:</b>		
Beginning balance	(293)	(317)
Current period other comprehensive income	1	8
Ending balance	<u>(292)</u>	<u>(309)</u>
<b>Accumulated other comprehensive loss, net of tax</b>	<b><u>\$ (16,847)</u></b>	<b><u>\$ (4,979)</u></b>

#### 4. DERIVATIVE FINANCIAL INSTRUMENTS

We routinely use certain derivative instruments to hedge foreign currency exposure. Although these derivatives were not designated as hedges and/or did not qualify for hedge accounting, they were effective economic hedges for the periods presented. The changes in fair values of economic hedges are recognized in earnings. During 2014 and 2013, we entered into foreign currency forward contracts to offset the earnings impact that foreign currency exchange rate fluctuations would otherwise have had on certain monetary liabilities denominated in nonfunctional currencies. The changes in fair values of these foreign currency forward contracts were gains of \$76 and \$21 for the quarters ended March 31, 2014 and 2013, respectively, and are included in selling, general and administrative expenses in our condensed consolidated unaudited statements of income. The total notional value of our foreign currency exchange contracts as of March 31, 2014 was \$52,500, and such contracts have varying terms expiring through July 2014. See Note 5.

#### 5. 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 March 31, 2014 Using		
			Level 1	Level 2	Level 3
<b>Assets:</b>					
Available-for-sale securities	Other assets	\$267	\$ 267	—	—
Derivative financial instruments	Other current assets	\$194	—	\$ 194	—
<b>Assets:</b>					
	Balance Sheet Location	Total	Level 1	Level 2	Level 3
Available-for-sale securities	Other assets	\$265	\$ 265	—	—
Derivative financial instruments	Other current assets	\$118	—	\$ 118	—

The following is a description of the valuation techniques used for these assets and liabilities, as well as the level of input used to measure fair value:

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

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

There were no transfers in or out of Level 1 and Level 2 during the quarter ended March 31, 2014.

## 6. SHAREHOLDERS' EQUITY

### Common Stock Dividends

We paid cash dividends of \$0.40 and \$0.25 per share of Common stock and Class B common stock during the quarters ended March 31, 2014 and 2013, respectively.

### Non-Vested (Restricted) Stock

During the quarters ended March 31, 2014 and 2013, we granted 183,025 and 85,543 shares of non-vested (restricted) stock, respectively.

### Stock Options

During the quarters ended March 31, 2014 and 2013, 12,250 and 7,000 stock options, respectively, were exercised for Common stock. Cash received from Common stock issued as a result of stock options exercised during the quarters ended March 31, 2014 and 2013, was \$683 and \$338, respectively.

### Employee Stock Purchase Plan

During the quarters ended March 31, 2014 and 2013, 2,062 and 2,182 shares of Common stock were issued under our employee stock purchase plan for which we received net proceeds of \$190 and \$159, respectively.

### 401(k) Plan

During the quarters ended March 31, 2014 and 2013, we issued 18,309 and 22,551 shares of Common stock to our profit sharing retirement plan, representing the Common stock discretionary matching contribution of \$1,759 and \$1,689, respectively.

### Noncontrolling Interest

Of our three joint ventures with Carrier, we have a 70% controlling interest in one and a 60% controlling interest in the other two, while Carrier has either a 30% or 40% noncontrolling interest in such joint ventures, as applicable. The following table reconciles shareholders' equity attributable to Carrier's noncontrolling interest:

Noncontrolling interest at December 31, 2013	\$286,996
Net income attributable to noncontrolling interest	7,650
Distributions to noncontrolling interest	(7,614)
Foreign currency translation adjustment	(3,840)
Noncontrolling interest at March 31, 2014	<u>\$283,192</u>

## 7. 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 \$5,477 and \$5,582 at March 31, 2014 and December 31, 2013, respectively, were established related to such programs and are included in accrued expenses and other current liabilities in our condensed consolidated unaudited balance sheets.

## **8. RELATED PARTY TRANSACTIONS**

Purchases from Carrier and its affiliates comprised 61% and 55% of all inventory purchases for the quarters ended March 31, 2014 and 2013, respectively. At March 31, 2014 and December 31, 2013, approximately \$126,000 and \$53,000, 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 condensed consolidated unaudited statements of income for the quarters ended March 31, 2014 and 2013 include \$6,535 and \$5,295, respectively, of sales to Carrier and its affiliates. We believe these transactions are conducted at arm's-length in the ordinary course of business.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward-Looking Statements**

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

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

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

In light of these uncertainties, there can be no assurance that the forward-looking information contained herein will be realized or, even if realized, in whole or in part, that the information will have the expected consequences to, or effects on, our business or operations. For additional information identifying other important factors that may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, see our SEC filings, including but not limited to, the discussion included in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2013. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information or the discussion of such risks and uncertainties to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as required by applicable law.

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The following information should be read in conjunction with the condensed consolidated unaudited financial statements and notes thereto included under Item 1 of this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2013.

### **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. At March 31, 2014, we operated from 568 locations in 38 U.S. states, Canada, Mexico and Puerto Rico with additional market coverage on an export basis to Latin America and the Caribbean.

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

Sales of residential central air conditioners, heating equipment and parts and supplies are seasonal. Furthermore, results of operations can be impacted favorably or unfavorably based on weather patterns, primarily 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 fourth quarter. Demand related to the new construction market is fairly consistent during the year, subject to weather and economic conditions, including their effect on the number of housing completions.

### **Joint Ventures with Carrier Corporation**

In 2009, we formed a joint venture with Carrier Corporation ("Carrier"), which we refer to as Carrier Enterprise I, in which Carrier contributed 95 of its company-owned locations in 13 Sun Belt states and Puerto Rico and its export division in Miami, Florida, and we contributed 15 locations that distributed Carrier products. On July 2, 2012, we exercised our option to acquire an additional 10% ownership interest in Carrier Enterprise I, which increased our ownership interest to 70%. We have another option to purchase from Carrier an additional 10% interest in Carrier Enterprise I, which becomes exercisable in July 2014. We intend to exercise our option, following which we would have an 80% controlling interest in Carrier Enterprise I.

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

In 2012, we formed a third joint venture, which we refer to as Carrier Enterprise III, with UTC Canada Corporation, referred to as UTC Canada, an affiliate of Carrier. 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 UTC Canada has a 40% noncontrolling interest. Neither we nor UTC Canada has any options to purchase additional ownership interests in Carrier Enterprise III.

### **Critical Accounting Policies**

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

Our critical accounting policies are included in our 2013 Annual Report on Form 10-K as filed on February 27, 2014. We believe that there have been no significant changes during the quarter ended March 31, 2014 to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013.

### **New Accounting Standards**

Refer to Note 1 to our condensed consolidated unaudited financial statements included in this Quarterly Report on Form 10-Q for a discussion of new accounting standards.

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### Results of Operations

The following table summarizes information derived from the condensed consolidated unaudited statements of income expressed as a percentage of revenues for the quarters ended March 31, 2014 and 2013:

	2014	2013
Revenues	100.0%	100.0%
Cost of sales	75.3	75.4
Gross profit	24.7	24.6
Selling, general and administrative expenses	20.0	20.3
Operating income	4.7	4.3
Interest expense, net	0.2	0.2
Income before income taxes	4.5	4.1
Income taxes	1.3	1.1
Net income	3.2	3.0
Less: net income attributable to noncontrolling interest	1.0	1.1
Net income attributable to Watsco, Inc.	2.2%	1.9%

In the following narratives, computations and disclosure information referring to “same-store basis” exclude the effects of locations acquired or locations opened or closed during the immediately preceding 12 months unless they are within close geographical proximity to existing locations. At March 31, 2014 and 2013, 18 and 61 locations, respectively, were excluded from “same-store basis” information. The table below summarizes the changes in our locations for the 12 months ended March 31, 2014:

	Number of Locations
March 31, 2013	574
Opened	4
Closed	(9)
December 31, 2013	569
Opened	2
Closed	(3)
March 31, 2014	568

#### Revenues

Revenues for the first quarter of 2014 increased \$48.9 million, or 7%, compared to the first quarter of 2013, including \$0.5 million from locations opened during the preceding 12 months, offset by \$1.3 million from locations closed. On a same-store basis, revenues increased \$49.7 million, or 7%, as compared to the same period in 2013, reflecting an 8% increase in sales of HVAC equipment, a 5% increase in sales of other HVAC products and a 2% increase in sales of commercial refrigeration products. The increase in same-store revenues is primarily due to strong demand for residential HVAC equipment.

#### Gross Profit

Gross profit for the quarter ended March 31, 2014 increased \$12.6 million, or 7%, compared to the same period in 2013, primarily as a result of increased revenues. Gross profit margin for the quarter ended March 31, 2014 improved 10 basis-points to 24.7% versus 24.6% for the same period in 2013.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses for the first quarter of 2014 increased \$7.6 million, or 5%, compared to the first quarter of 2013 primarily due to increased revenues. Selling, general and administrative expenses as a percent of revenues for the quarter ended March 31, 2014 decreased to 20.0% versus 20.3% for the same period in 2013. The decrease in selling, general, and administrative expenses as a percentage of revenues was primarily due to improved leveraging of fixed operating costs as compared to 2013. On a same-store basis, selling, general and administrative expenses increased 5% as compared to the same period in 2013.

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### *Interest Expense, Net*

Net interest expense for the quarter ended March 31, 2014 decreased \$0.2 million, or 15%, compared to the same period in 2013, primarily as a result of a decrease in average outstanding borrowings, partially offset by a higher effective interest rate for the 2014 period as compared to the same period in 2013.

### *Income Taxes*

Income taxes increased to \$10.1 million for the first quarter of 2014 as compared to \$8.3 million for the first quarter of 2013 and are a composite of the income taxes attributable to our wholly owned operations and investments, and income taxes attributable to the Carrier joint ventures, which are taxed as partnerships for income tax purposes. The effective income tax rates attributable to us were 37.0% and 36.75% for the quarters ended March 31, 2014 and 2013, respectively. The increase was primarily due to higher effective tax rates for income generated by our U.S. subsidiaries.

### *Net Income Attributable to Watsco, Inc.*

Net income attributable to Watsco for the quarter ended March 31, 2014 increased \$3.4 million, or 25%, compared to the same period in 2013. The increase was primarily driven by higher revenues, expanded profit margins and reduced selling, general and administrative expenses as a percent of revenues, as discussed above.

## **Liquidity and Capital Resources**

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

- cash necessary to fund our business (primarily working capital requirements);
- the adequacy of our available bank line of credit;
- the ability to attract long-term capital with satisfactory terms;
- acquisitions;
- dividend payments;
- capital expenditures; and
- the timing and extent of common stock repurchases.

### Sources and Uses of Cash

We rely on cash flows from operations and borrowing capacity under our revolving credit agreement to fund seasonal working capital needs and for other general corporate purposes, including dividend payments, if and as declared by our Board of Directors, capital expenditures, business acquisitions and development of our long-term operating strategies.

At March 31, 2014, we had \$19.5 million of cash and cash equivalents, of which, \$16.3 million was held by foreign subsidiaries. We believe that our operating cash flows, cash on hand and funds available for borrowing under our line of credit will be sufficient to meet our liquidity needs in 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 line of credit depends on the ability of the syndicate banks to meet their respective funding commitments. Disruptions in the capital and credit markets could adversely affect our ability to draw on our line of credit and may also adversely affect the determination of interest rates, particularly rates based on LIBOR, which is one of the base rates under our line of credit. Disruptions in the capital and credit markets could also result in increased borrowing costs and/or reduced borrowing capacity under our line of credit.

### Working Capital

Working capital increased to \$786.0 million at March 31, 2014 from \$777.6 million at December 31, 2013, reflecting higher levels of inventories due to our seasonal buildup of inventory in preparation for our Spring and Summer selling season.

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### Cash Flows

The following table summarizes our cash flow activity for the quarters ended March 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>	<u>Change</u>
Cash flows provided by (used in) operating activities	\$ 24.9	\$(17.5)	\$ 42.4
Cash flows used in investing activities	\$ (1.7)	\$ (3.0)	\$ 1.3
Cash flows used in financing activities	\$(23.1)	\$(31.1)	\$ 8.0

The individual items contributing to cash flow changes for the periods presented are detailed in the condensed consolidated unaudited statements of cash flows contained in this Quarterly Report on Form 10-Q.

### Operating Activities

The increase in net cash provided by operating activities was primarily due to the timing of payments for accrued expenses and higher net income for the first quarter of 2014 as compared to the first quarter of 2013, partially offset by our seasonal buildup of inventory in preparation for the Spring and Summer selling season.

### Investing Activities

The decrease in net cash used in investing activities was due to lower capital expenditures in the first quarter of 2014 as compared to the first quarter of 2013.

### Financing Activities

The decrease in net cash used in financing activities was primarily attributable to a decrease in distributions to the noncontrolling interest partially offset by repayments of borrowings under our revolving credit agreement and an increase in dividends paid in the first quarter of 2014 as compared to the first quarter of 2013.

### Revolving Credit Agreement

We maintain an unsecured, syndicated revolving credit agreement that provides for borrowings of up to \$500.0 million. Borrowings are used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends (if and as declared by our Board of Directors), stock repurchases and issuances of letters of credit. The credit agreement matures on July 1, 2018. At March 31, 2014 and December 31, 2013, \$226.7 million and \$230.0 million were outstanding under the revolving credit agreement, respectively. 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 March 31, 2014.

### Acquisitions

On July 1, 2014, we intend to exercise our option to acquire an additional 10% ownership interest in Carrier Enterprise I, following which we would have an 80% controlling interest in Carrier Enterprise I. The purchase price for the additional 10% ownership interest is based on a formula included in the Purchase and Contribution Agreement dated May 3, 2009 that will be determined upon the date of exercise. We believe that we will have sufficient capacity under our existing revolving credit agreement to fund the purchase.

We continually evaluate potential acquisitions and/or joint ventures and routinely hold discussions with a number of 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 \$0.40 and \$0.25 per share of Common stock and Class B common stock during the quarters ended March 31, 2014 and 2013, respectively. On April 1, 2014, our Board of Directors declared a regular quarterly cash dividend of \$0.40 per share of Common and Class B common stock that was paid on April 30, 2014 to shareholders of record as of April 15, 2014. On April 14, 2014, our Board of Directors approved an increase in the quarterly cash dividend rate to \$0.60 per share from \$0.40 per share. The increase will be reflected in our next regular dividend payment in July 2014. Future dividends and/or dividend rate increases will be at the sole discretion of the Board of Directors and will depend upon such factors as cash flow generated by operations, profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

### Company Share Repurchase Program

In September 1999, our Board of Directors authorized the repurchase, at management's discretion, of up to 7,500,000 shares of common stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders' equity. No shares were repurchased during the quarters ended March 31, 2014 or 2013. 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 March 31, 2014, there were 1,129,087 shares remaining authorized for repurchase under the program.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risk from the information provided in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of our Annual Report on Form 10-K for the year ended December 31, 2013.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

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

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

#### **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 March 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

Information with respect to this item may be found in Note 7 to our condensed consolidated unaudited financial statements contained in this Quarterly Report on Form 10-Q under the caption “Litigation, Claims and Assessments,” which information is incorporated by reference in this Item 1 of Part II of this Quarterly Report on Form 10-Q.

### **ITEM 1A. RISK FACTORS**

Information about risk factors for the quarter ended March 31, 2014 does not differ materially from that set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2013.

### **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

#### **Recent Sales of Unregistered Securities**

On March 6, 2014, we issued 18,309 shares of our Common stock to our Profit Sharing Retirement Plan & Trusts (the “Plans”) representing the employer match under the Plans for the plan year ended December 31, 2013, without registration. This issuance was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) thereof. The Plans are profit sharing retirement plans that are qualified under Section 401 of the Internal Revenue Code of 1986, as amended. The assets of the Plans are held in a single trust fund for the benefit of our employees, and no Plan holds assets for the benefit of the employees of any other employer. All of the contributions to the Plans from our employees have been invested in assets other than our Common stock. We have contributed all of the Common stock held by the Plans as a discretionary matching contribution, which, at the time of contribution, was lower in value than the employee contributions that the contribution matched.

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**ITEM 6. EXHIBITS**

10.1 #	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.
31.1 #	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a- 15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2 #	Certification of Senior Vice President pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.3 #	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a- 15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1 +	Certification of Chief Executive Officer, Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
101.INS #	XBRL Instance Document.
101.SCH #	XBRL Taxonomy Extension Schema Document.
101.CAL #	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF #	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB #	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE #	XBRL Taxonomy Extension Presentation Linkbase Document.

# filed herewith.

+ furnished herewith.

**SIGNATURE**

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

WATSCO, INC.  
(Registrant)

Date: May 1, 2014

By: /s/ Ana M. Menendez  
Ana M. Menendez  
Chief Financial Officer (on behalf of the Registrant and as Principal  
Financial Officer)

**INDEX TO EXHIBITS**

<u>Exhibit No.</u>	<u>Exhibit Description</u>
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# filed herewith.

+ furnished herewith.

**FIFTEENTH AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

This Fifteenth Amendment to Employment Agreement is made and entered into effective as of the 1st day of January, 2014, 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, 2001, January 1, 2002, January 1, 2003, January 1, 2004, January 1, 2005, January 1, 2006, January 1, 2007, January 1, 2008, December 10, 2008, January 1, 2009, January 1, 2010, January 1, 2011, January 1, 2012 and January 1, 2013; and

**WHEREAS**, the Compensation Committee of the Company’s Board of Directors has set the targets for the performance based compensation payable by the Company to the Employee for the year 2014; and

**WHEREAS**, the Company and the Employee now desire to amend the Employment Agreement and Exhibit A-1 to the Employment Agreement to specify the performance based compensation payable by the Company to the Employee for the calendar year 2014.

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

1. All capitalized terms in this Fifteenth 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 — 2013 Performance Goals and Performance Based Compensation” with the attached “Exhibit A-1 — 2014 Performance Goals and 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 Fifteenth Amendment to be duly executed effective as of the day and year first above written.

**COMPANY:**

WATSCO, INC.

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

**EMPLOYEE:**

/s/ Albert H. Nahmad  
Albert H. Nahmad

EXHIBIT A-1

2014 Performance Goals and Performance Based Compensation

I. <u>Formula</u>	Performance Based <u>Compensation Amount</u>
A. <u>Earnings Per Share</u>	
For each \$.01 increase	\$65,250
B. <u>Increase in Common Stock Price</u>	
(i) If the closing price of a share of Common Stock on 12/31/14 does not exceed \$96.06	\$0
(ii) If the closing price of a share of Common Stock on 12/31/14 exceeds \$96.06 but does not equal or exceed \$113.00, for each \$0.01 increase in per share price of a share of Common Stock above \$96.06	\$1,200
(iii) If the closing price of a share of Common Stock on 12/31/14 equals or exceeds \$113.00, for each \$0.01 increase in per share price of a share of Common Stock above \$96.06	\$1,800

II. Method of Payment

The Performance Based Compensation determined for 2014 under the formula in Section I (the "Performance Based Compensation Amount") shall be paid in the form of the Company's grant of a number of shares of Class B Common Stock of the Company (the "Shares") equal to the amount determined by dividing (x) two times the Performance Based Compensation 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, 2014. The value of any fractional shares shall be paid in cash. The Compensation Committee may, in its sole discretion, exercise negative discretion to reduce the Performance Based Compensation Amount by any amount and instead pay the amount by which the Performance Based Compensation Amount has been reduced in cash on a 1 for 1 basis, rather than converting that amount into Shares on a 2 for 1 basis as described above. The restrictions on the Shares shall lapse on the first to occur of (i) October 15, 2022 (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).

III. Incentive Compensation Plan

The performance based award and method of payment specified above (the "Award") are being made by the Compensation Committee pursuant to Section 8 of the Company's 2001 Amended and Restated Incentive Compensation Plan or any successor plan (the "Incentive Plan") and are subject to the limitations contained in Section 5 of the Incentive Plan. The Award is intended to qualify as "performance based compensation" under Section 162(m) of the Internal Revenue Code.

Dated: Effective as of January 1, 2014

/s/ Paul Manley  
 \_\_\_\_\_  
 Paul F. Manley, Chairman  
 Compensation Committee

Acknowledged and Accepted:

/s/ Albert H. Nahmad  
 \_\_\_\_\_  
 Albert H. Nahmad

## CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Albert H. Nahmad, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 an 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: May 1, 2014

/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 Quarterly Report on Form 10-Q 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 an 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: May 1, 2014

/s/ Barry S. Logan

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Barry S. Logan  
Senior 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 Quarterly Report on Form 10-Q 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 an 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: May 1, 2014

/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 Quarterly Report on Form 10-Q of Watsco, Inc. ("Watsco") for the quarter ended March 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Albert H. Nahmad, as Chief Executive Officer of Watsco, Barry S. Logan, as Senior Vice President of Watsco and Ana M. Menendez, as Chief Financial Officer of Watsco, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Watsco.

/s/ Albert H. Nahmad

Albert H. Nahmad  
Chief Executive Officer  
May 1, 2014

/s/ Barry S. Logan

Barry S. Logan  
Senior Vice President  
May 1, 2014

/s/ Ana M. Menendez

Ana M. Menendez  
Chief Financial Officer  
May 1, 2014

A signed original 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.