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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, 2015

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 May 1, 2015 was (i) 30,214,199 shares of Common stock, \$0.50 par value per share, excluding 6,322,650 treasury shares, and (ii) 4,987,332 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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WATSCO, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF INCOME  
(In thousands, except per share data)

	Quarters Ended March 31,	
	2015	2014
Revenues	<b>\$808,972</b>	\$762,568
Cost of sales	<b>604,747</b>	574,499
Gross profit	<b>204,225</b>	188,069
Selling, general and administrative expenses	<b>157,217</b>	152,516
Operating income	<b>47,008</b>	35,553
Interest expense, net	<b>1,377</b>	1,009
Income before income taxes	<b>45,631</b>	34,544
Income taxes	<b>14,331</b>	10,141
Net income	<b>31,300</b>	24,403
Less: net income attributable to noncontrolling interest	<b>8,252</b>	7,650
Net income attributable to Watsco, Inc.	<b>\$ 23,048</b>	\$ 16,753
Earnings per share for Common and Class B common stock:		
Basic	<b>\$ 0.65</b>	\$ 0.48
Diluted	<b>\$ 0.65</b>	\$ 0.48

*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>2015</u>	<u>2014</u>
Net income	<b>\$ 31,300</b>	<b>\$ 24,403</b>
Other comprehensive loss, net of tax		
Foreign currency translation adjustment	<b>(19,875)</b>	(9,214)
Unrealized gain on cash flow hedging instruments arising during the period	<b>1,626</b>	—
Reclassification of gain on cash flow hedging instruments into earnings	<b>(137)</b>	—
Unrealized gain on available-for-sale securities arising during the period	<b>7</b>	<b>1</b>
Other comprehensive loss	<b>(18,379)</b>	(9,213)
Comprehensive income	<b>12,921</b>	15,190
Less: comprehensive income attributable to noncontrolling interest	<b>816</b>	3,810
Comprehensive income attributable to Watsco, Inc.	<b><u>\$ 12,105</u></b>	<b><u>\$ 11,380</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, 2015 (Unaudited)	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 16,251	\$ 24,447
Accounts receivable, net	436,456	434,234
Inventories	800,856	677,990
Other current assets	19,773	20,664
Total current assets	1,273,336	1,157,335
Property and equipment, net	53,115	53,480
Goodwill	382,534	387,311
Intangible assets, net	174,379	186,476
Other assets	6,141	6,465
	<u>\$1,889,505</u>	<u>\$1,791,067</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of other long-term obligations	\$ 172	\$ 169
Accounts payable	238,329	173,360
Accrued expenses and other current liabilities	117,640	113,493
Total current liabilities	356,141	287,022
Long-term obligations:		
Borrowings under revolving credit agreement	340,653	303,199
Other long-term obligations, net of current portion	642	686
Total long-term obligations	341,295	303,885
Deferred income taxes and other liabilities	67,662	68,121
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, \$0.50 par value	18,268	18,222
Class B common stock, \$0.50 par value	2,518	2,467
Preferred stock, \$0.50 par value	—	—
Paid-in capital	588,092	580,564
Accumulated other comprehensive loss, net of tax	(34,690)	(23,747)
Retained earnings	419,403	420,879
Treasury stock, at cost	(114,425)	(114,425)
Total Watsco, Inc. shareholders' equity	879,166	883,960
Noncontrolling interest	245,241	248,079
Total shareholders' equity	1,124,407	1,132,039
	<u>\$1,889,505</u>	<u>\$1,791,067</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,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 31,300	\$ 24,403
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,621	4,434
Share-based compensation	2,831	2,488
Non-cash contribution to 401(k) plan	1,963	1,759
Provision for doubtful accounts	1,288	927
Excess tax benefits from share-based compensation	(358)	(131)
Other, net	758	961
Changes in operating assets and liabilities:		
Accounts receivable	(6,884)	1,992
Inventories	(126,900)	(126,316)
Accounts payable and other liabilities	72,050	112,346
Other, net	2,548	2,038
Net cash (used in) provided by operating activities	<u>(16,783)</u>	<u>24,901</u>
Cash flows from investing activities:		
Capital expenditures	(3,114)	(1,736)
Proceeds from sale of property and equipment	71	70
Net cash used in investing activities	<u>(3,043)</u>	<u>(1,666)</u>
Cash flows from financing activities:		
Net proceeds (repayments) under revolving credit agreement	38,497	(2,553)
Net proceeds from issuances of common stock	1,381	873
Excess tax benefits from share-based compensation	358	131
Net repayments of other long-term obligations	(41)	(26)
Distributions to noncontrolling interest	(3,654)	(7,614)
Dividends on Common and Class B common stock	(24,524)	(13,923)
Net cash provided by (used in) financing activities	<u>12,017</u>	<u>(23,112)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	(387)	(144)
Net decrease in cash and cash equivalents	(8,196)	(21)
Cash and cash equivalents at beginning of period	24,447	19,478
Cash and cash equivalents at end of period	<u>\$ 16,251</u>	<u>\$ 19,457</u>

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS  
March 31, 2015  
(In thousands, except share and per share data)

**1. BASIS OF PRESENTATION**

**Basis of Consolidation**

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. The accompanying March 31, 2015 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 2014 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, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015. 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.

**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**

*Revenue Recognition*

In May 2014, the Financial Accounting Standards Board (the “FASB”) issued a standard on revenue recognition that provides a single, comprehensive revenue recognition model for all contracts with customers. The standard is principle-based and provides a five-step model to determine the measurement of revenue and timing of when it is recognized. The core principle is that a company will recognize revenue to reflect the transfer of goods or services to customers at an amount that the company expects to be entitled to in exchange for those goods or services. This standard is effective for our interim and annual reporting periods beginning after December 15, 2016, with no early adoption permitted. In April 2015, the FASB proposed a one-year delay in the effective date of this standard along with the option to adopt the standard as of the original effective date. We are currently evaluating the impact on our condensed consolidated unaudited financial statements.

*Debt Issuance Costs*

In April 2015, the FASB issued guidance that will require debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, rather than as an asset. This guidance is to be applied retrospectively and will be effective for interim and annual reporting periods beginning after December 15, 2015. We do not expect the adoption of this guidance to have a material impact on our condensed consolidated unaudited financial statements.



[Table of Contents](#)**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>2015</u>	<u>2014</u>
<b>Basic Earnings per Share:</b>		
Net income attributable to Watsco, Inc. shareholders	\$ 23,048	\$ 16,753
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	<u>1,868</u>	<u>1,242</u>
Earnings allocated to Watsco, Inc. shareholders	<u>\$ 21,180</u>	<u>\$ 15,511</u>
Weighted-average common shares outstanding – Basic	32,377,159	32,249,988
Basic earnings per share for Common and Class B common stock	\$ 0.65	\$ 0.48
<b>Allocation of earnings for Basic:</b>		
Common stock	\$ 19,409	\$ 14,211
Class B common stock	<u>1,771</u>	<u>1,300</u>
	<u>\$ 21,180</u>	<u>\$ 15,511</u>
<b>Diluted Earnings per Share:</b>		
Net income attributable to Watsco, Inc. shareholders	\$ 23,048	\$ 16,753
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	<u>1,868</u>	<u>1,242</u>
Earnings allocated to Watsco, Inc. shareholders	<u>\$ 21,180</u>	<u>\$ 15,511</u>
Weighted-average common shares outstanding – Basic	32,377,159	32,249,988
Effect of dilutive stock options	<u>53,918</u>	<u>55,457</u>
Weighted-average common shares outstanding – Diluted	<u>32,431,077</u>	<u>32,305,445</u>
Diluted earnings per share for Common and Class B common stock	\$ 0.65	\$ 0.48

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, 2015 and 2014, our outstanding Class B common stock was convertible into 2,707,625 and 2,702,815 shares of our Common stock, respectively.

Diluted earnings per share excluded 13,767 and 500 shares for the quarters ended March 31, 2015 and 2014, respectively, 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.

### 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 gains on cash flow hedging instruments and available-for-sale securities. The tax effects allocated to each component of other comprehensive loss were as follows:

<i>Quarters Ended March 31,</i>	2015	2014
Foreign currency translation adjustment	<u>\$ (19,875)</u>	<u>\$ (9,214)</u>
Unrealized gain on cash flow hedging instruments	2,227	—
Income tax expense	<u>(601)</u>	<u>—</u>
Unrealized gain on cash flow hedging instruments, net of tax	<u>1,626</u>	<u>—</u>
Reclassification of gain on cash flow hedging instruments into earnings	<u>(188)</u>	<u>—</u>
Income tax expense	<u>51</u>	<u>—</u>
Reclassification of gain on cash flow hedging instruments into earnings, net of tax	<u>(137)</u>	<u>—</u>
Unrealized gain on available-for-sale securities	11	2
Income tax expense	<u>(4)</u>	<u>(1)</u>
Unrealized gain on available-for-sale securities, net of tax	<u>7</u>	<u>1</u>
Other comprehensive loss	<u><u>\$ (18,379)</u></u>	<u><u>\$ (9,213)</u></u>

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

<i>Quarters Ended March 31,</i>	2015	2014
Foreign currency translation adjustment:		
Beginning balance	\$ (23,623)	\$ (11,181)
Current period other comprehensive loss	<u>(11,843)</u>	<u>(5,374)</u>
Ending balance	<u>(35,466)</u>	<u>(16,555)</u>
Cash flow hedging instruments:		
Beginning balance	168	—
Current period other comprehensive income	975	—
Less reclassification adjustment	<u>(82)</u>	<u>—</u>
Ending balance	<u>1,061</u>	<u>—</u>
Available-for-sale securities:		
Beginning balance	(292)	(293)
Current period other comprehensive income	<u>7</u>	<u>1</u>
Ending balance	<u>(285)</u>	<u>(292)</u>
Accumulated other comprehensive loss, net of tax	<u><u>\$ (34,690)</u></u>	<u><u>\$ (16,847)</u></u>

### 4. DERIVATIVES

We enter into foreign currency forward contracts to offset the earnings impact that foreign exchange rate fluctuations would otherwise have had 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 in the period when the hedged transaction occurs. The maximum length of time over which we hedge our exposure to the variability in future cash flows for forecasted transactions is 12 months and, accordingly, at March 31, 2015, all of our open foreign currency forward contracts had maturities of one year or less. The total notional value of our foreign currency exchange contracts designated as cash flow hedges at March 31, 2015 was \$35,200, and such contracts have varying terms expiring through August 2015. We did not have any foreign currency forward contracts designated as cash flow hedges and/or did not qualify for hedge accounting at March 31, 2014.

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The impact from foreign exchange derivative instruments designated in cash flow hedging relationships were as follows:

<u>Quarters Ended March 31,</u>	<u>2015</u>	<u>2014</u>
Gain recorded in accumulated other comprehensive loss	\$2,227	—
Gain reclassified from accumulated other comprehensive loss into earnings	\$ 188	—

At March 31, 2015, we expected an estimated \$2,423 pre-tax gain to be reclassified into earnings to reflect the fixed prices obtained from foreign exchange hedging within the next 12 months.

### Derivatives Not Designated as Hedging Instruments

We also enter into foreign currency forward contracts that are not designated as hedges and/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. The total notional value of our foreign currency exchange contracts not designated as hedging instruments at March 31, 2015 was \$14,400, and such contracts have varying terms expiring through October 2015.

We recognized a gain of \$1,383 and \$76 in our condensed consolidated unaudited statements of income from foreign currency forward contracts not designated as hedging instruments for the quarters ended March 31, 2015 and 2014, respectively.

The following table summarizes the fair value of derivative instruments, which consist solely of foreign currency forward contracts, included in other current assets in our condensed consolidated unaudited balance sheets. See Note 5.

	<u>Asset Derivatives</u>	
	<u>March 31, 2015</u>	<u>December 31, 2014</u>
Derivatives designated as hedging instruments	\$ 1,575	\$ 384
Derivatives not designated as hedging instruments	602	260
Total derivative instruments	<u>\$ 2,177</u>	<u>\$ 644</u>

## 5. FAIR VALUE MEASUREMENTS

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

	<u>Balance Sheet Location</u>	<u>Total</u>	<u>Fair Value Measurements at March 31, 2015 Using</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:					
Available-for-sale securities	Other assets	\$ 277	\$ 277	—	—
Derivative financial instruments	Other current assets	\$ 2,177	—	\$ 2,177	—

	<u>Balance Sheet Location</u>	<u>Total</u>	<u>Fair Value Measurements at December 31, 2014 Using</u>		
			<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Assets:					
Available-for-sale securities	Other assets	\$ 266	\$ 266	—	—
Derivative financial instruments	Other current assets	\$ 644	—	\$ 644	—

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. See Note 4. 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.

There were no transfers in or out of Level 1 and Level 2 during the quarter ended March 31, 2015.

## 6. SHAREHOLDERS' EQUITY

### Common Stock Dividends

We paid cash dividends of \$0.70 and \$0.40 per share of Common stock and Class B common stock during the quarters ended March 31, 2015 and 2014, respectively.

### Non-Vested (Restricted) Stock

During the quarters ended March 31, 2015 and 2014, we granted 152,979 and 183,025 shares of non-vested (restricted) stock, respectively.

### Exercise of Stock Options

During the quarters ended March 31, 2015 and 2014, 25,200 and 12,250 stock options, respectively, were exercised for Common and Class B common stock. Cash received from Common stock issued as a result of stock options exercised during the quarters ended March 31, 2015 and 2014, was \$1,103 and \$683, respectively. During the quarter ended March 31, 2015, 4,627 shares of Class B common stock with an aggregate fair market value of \$549 were withheld as payment in lieu of cash for stock option exercises and related tax withholdings. These shares were retired upon delivery.

### Employee Stock Purchase Plan

During the quarters ended March 31, 2015 and 2014, 2,669 and 2,062 shares of Common stock were issued under our employee stock purchase plan for which we received net proceeds of \$278 and \$190, respectively.

### 401(k) Plan

During the quarters ended March 31, 2015 and 2014, we issued 18,343 and 18,309 shares of Common stock, respectively, to our profit sharing retirement plan, representing the Common stock discretionary matching contribution of \$1,963 and \$1,759, respectively.

### Noncontrolling Interest

Of our three joint ventures with Carrier, we have an 80% controlling interest in one and a 60% controlling interest in the other two, while Carrier has either a 20% 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, 2014	\$248,079
Net income attributable to noncontrolling interest	8,252
Distributions to noncontrolling interest	(3,654)
Foreign currency translation adjustment	(8,032)
Gain recorded in accumulated other comprehensive loss	651
Gain reclassified from accumulated other comprehensive loss into earnings	(55)
Noncontrolling interest at March 31, 2015	<u>\$245,241</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 \$4,857 and \$4,630 at March 31, 2015 and December 31, 2014, 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 58% and 61% of all inventory purchases made during the quarters ended March 31, 2015 and 2014, respectively. At March 31, 2015 and December 31, 2014, approximately \$85,000 and \$61,000, 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, 2015 and 2014 included \$7,739 and \$6,535, 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 on Form 10-Q 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" 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, (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;
- 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;
- 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 other 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 our Annual Report on Form 10-K for the year ended December 31, 2014, 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.

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The following information should be read in conjunction with the condensed consolidated unaudited financial statements, including the notes thereto, included under Part I, 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, 2014.

### **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 March 31, 2015, we operated from 569 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. In July 2012, we exercised our option to acquire an additional 10% ownership interest in Carrier Enterprise I, which increased our ownership interest to 70%; and, on July 1, 2014, we exercised our last remaining option to acquire an additional 10% ownership interest in Carrier Enterprise I, which increased our controlling interest in Carrier Enterprise I to 80%. Neither we nor Carrier has any remaining options to purchase additional ownership interests in Carrier Enterprise I or any of our other joint ventures with Carrier, which are described below.

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.

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.

### **Critical Accounting Policies**

Management's discussion and analysis of financial condition and results of operations is based upon the condensed consolidated unaudited financial statements included in this Quarterly Report on Form 10-Q, 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 2014 Annual Report on Form 10-K as filed on February 24, 2015. We believe that there have been no significant changes during the quarter ended March 31, 2015 to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014.

### **Recent Accounting Pronouncements**

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 pronouncements.

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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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Revenues	<b>100.0%</b>	100.0%
Cost of sales	<b>74.8</b>	75.3
Gross profit	<b>25.2</b>	24.7
Selling, general and administrative expenses	<b>19.4</b>	20.0
Operating income	<b>5.8</b>	4.7
Interest expense, net	<b>0.2</b>	0.2
Income before income taxes	<b>5.6</b>	4.5
Income taxes	<b>1.8</b>	1.3
Net income	<b>3.8</b>	3.2
Less: net income attributable to noncontrolling interest	<b>1.0</b>	1.0
Net income attributable to Watsco, Inc.	<b><u>2.8%</u></b>	<u>2.2%</u>

The following narratives reflect our additional 10% ownership interest in Carrier Enterprise I, which became effective on July 1, 2014. We did not acquire any businesses during the quarters ended March 31, 2015 and 2014.

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, 2015 and 2014, 31 and 18 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, 2015:

	<u>Number of Locations</u>
March 31, 2014	568
Opened	15
Closed	(11)
December 31, 2014	572
Opened	1
Closed	(4)
March 31, 2015	<b><u>569</u></b>

#### *Revenues*

Revenues for the first quarter of 2015 increased \$46.4 million, or 6%, including \$0.9 million from locations opened during the preceding 12 months, offset by \$4.6 million from locations closed. On a same-store basis, revenues increased \$50.1 million, or 7%, as compared to the same period in 2014, reflecting an 8% increase in sales of HVAC equipment (64% of sales), which included an 8% increase in residential HVAC equipment and an 11% increase in commercial HVAC equipment, a 2% increase in sales of other HVAC products (31% of sales) and a 5% increase in sales of commercial refrigeration products (5% of sales). The increase in same-store revenues is primarily due to strong demand for the replacement of residential HVAC equipment. Revenues from sales of residential HVAC equipment also benefited from an improved sales mix of higher-efficiency air conditioning and heating systems, which sell at higher unit prices.

#### *Gross Profit*

Gross profit for the first quarter of 2015 increased \$16.2 million, or 9%, primarily as a result of increased revenues. Gross profit margin for the quarter ended March 31, 2015 improved 50 basis-points to 25.2% versus 24.7%, primarily due to higher realized gross margins for residential HVAC equipment.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses for the first quarter of 2015 increased \$4.7 million, or 3%, primarily due to increased revenues. Selling, general and administrative expenses as a percent of revenues for the quarter ended March 31, 2015 decreased to

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19.4% versus 20.0% for the same period in 2014. 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 2014. On a same-store basis, selling, general and administrative expenses increased 4% as compared to the same period in 2014.

### *Interest Expense, Net*

Net interest expense for the first quarter of 2015 increased \$0.4 million, or 36%, primarily as a result of an increase in average outstanding borrowings, partially offset by a lower effective interest rate for the 2015 period as compared to the same period in 2014.

### *Income Taxes*

Income taxes increased to \$14.3 million for the first quarter of 2015 as compared to \$10.1 million for the first quarter of 2014 and are 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. The effective income tax rates attributable to us were 37.5% and 37.0% for the quarters ended March 31, 2015 and 2014, respectively. The increase was primarily due to higher state income taxes in 2015 versus 2014 related to income generated by our U.S. subsidiaries.

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

Net income attributable to Watsco for the quarter ended March 31, 2015 increased \$6.3 million, or 38%, compared to the same period in 2014. 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, and by a reduction in the net income attributable to the noncontrolling interest related to Carrier Enterprise I following our purchase of an additional 10% ownership interest in Carrier Enterprise I in July 2014.

## **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);
- the adequacy of our available bank line of credit;
- the ability to attract long-term capital with satisfactory terms;
- acquisitions, including joint ventures;
- 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.

As of March 31, 2015, we had \$16.3 million of cash and cash equivalents, of which, \$10.9 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 credit and capital 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 credit and capital markets could also result in increased borrowing costs and/or reduced borrowing capacity under our line of credit.

### Working Capital

Working capital increased to \$917.2 million at March 31, 2015 from \$870.3 million at December 31, 2014, 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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Cash flows (used in) provided by operating activities	<b>\$ (16.8)</b>	\$ 24.9	<b>\$ (41.7)</b>
Cash flows used in investing activities	<b>\$ (3.0)</b>	\$ (1.7)	<b>\$ (1.3)</b>
Cash flows provided by (used in) financing activities	<b>\$ 12.0</b>	\$(23.1)	<b>\$ 35.1</b>

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 used in operating activities was primarily due to the timing of payments for accrued expenses and higher accounts receivable driven by increased sales, partially offset by higher net income for the first quarter of 2015.

### Investing Activities

The increase in net cash used in investing activities was due to higher capital expenditures in the first quarter of 2015.

### Financing Activities

The increase in net cash provided by financing activities was primarily attributable to higher net borrowings under our revolving credit agreement and a decrease in distributions to the noncontrolling interest, partially offset by an increase in dividends paid in the first quarter of 2015.

### Revolving Credit Agreement

We maintain an unsecured, syndicated revolving credit agreement that provides for borrowings of up to \$600.0 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, 2019. At March 31, 2015 and December 31, 2014, \$340.7 million and \$303.2 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, 2015.

### Acquisitions

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 \$0.70 and \$0.40 per share of Common stock and Class B common stock during the quarters ended March 31, 2015 and 2014, respectively. On April 1, 2015, our Board of Directors declared a regular quarterly cash dividend of \$0.70 per share of Common and Class B common stock that was paid on April 30, 2015 to shareholders of record as of April 15, 2015. Future dividends and/or changes in dividend rates 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, 2015 or 2014. 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, 2015, 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 to the information regarding market risk 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, 2014.

### **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, 2015, 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, 2015 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, 2014.

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

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

On March 4, 2015, we issued 18,343 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, 2014, 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.

### **ITEM 6. EXHIBITS**

- |        |   |
|--------|---|
| 10.1 # | 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.                     |
| 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. |

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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 7, 2015

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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101.PRE #	XBRL Taxonomy Extension Presentation Linkbase Document.

# filed herewith.

+ furnished herewith.

**SIXTEENTH AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

This Sixteenth Amendment to Employment Agreement is made and entered into effective as of the 1st day of January, 2015, 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, January 1, 2013 and January 1, 2014; 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 2015; 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 2015.

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

1. All capitalized terms in this Sixteenth 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 — 2014 Performance Goals and Performance Based Compensation” with the attached “Exhibit A-1 — 2015 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 Sixteenth 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

## 2015 Performance Goals and Performance Based Compensation

I. Formula

	Performance Based Compensation Amount
<b>A. <u>Earnings Per Share</u></b>	
For each \$.01 increase	\$ 65,250
<b>B. <u>Increase in Common Stock Price</u></b>	
(i) If the closing price of a share of Common Stock on 12/31/15 does not exceed \$107.00	\$ 0
(ii) If the closing price of a share of Common Stock on 12/31/15 exceeds \$107.00 but does not equal or exceed \$123.00, for each \$0.01 increase in per share price of a share of Common Stock above \$107.00	\$ 1,200
(iii) If the closing price of a share of Common Stock on 12/31/15 equals or exceeds \$123.00, for each \$0.01 increase in per share price of a share of Common Stock above \$107.00	\$ 1,800

II. Method of Payment

The Performance Based Compensation determined for 2015 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, 2015. 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 2014 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, 2015

/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 7, 2015

/s/ Albert H. Nahmad

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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 7, 2015

/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 7, 2015

/s/ Ana M. Menendez

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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, 2015, 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 7, 2015

/s/ Barry S. Logan

Barry S. Logan  
Senior Vice President  
May 7, 2015

/s/ Ana M. Menendez

Ana M. Menendez  
Chief Financial Officer  
May 7, 2015

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.