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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2020

or

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

For the Transition Period From ________ to ________

Commission file number 1-5581

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

WATSCO, INC.

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.50 par value	WSO	New York Stock Exchange
Class B common stock, $0.50 par value	WSOB	New York Stock Exchange

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

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

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

The registrant’s common stock outstanding as of November 2, 2020 comprised (i) 32,846,271 shares of Common stock, $0.50 par value per share, excluding 4,823,988 treasury shares and (ii) 5,635,926 shares of Class B common stock, $0.50 par value per share, excluding 48,263 treasury shares.

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)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	**$1,536,671**	$1,394,915	**$3,900,212**	$3,698,047
Cost of sales	**1,162,908**	1,060,224	**2,959,635**	2,801,612
Gross profit	**373,763**	334,691	**940,577**	896,435
Selling, general and administrative expenses	**221,037**	212,902	**618,476**	589,523
Other income	**4,055**	3,530	**9,172**	7,939
Operating income	**156,781**	125,319	**331,273**	314,851
Interest expense, net	**108**	1,434	**1,181**	3,422
Income before income taxes	**156,673**	123,885	**330,092**	311,429
Income taxes	**30,467**	24,230	**63,397**	60,060
Net income	**126,206**	99,655	**266,695**	251,369
Less: net income attributable to non-controlling interest	**19,717**	16,175	**43,126**	42,697
Net income attributable to Watsco, Inc.	**$ 106,489**	$ 83,480	**$ 223,569**	$ 208,672
Earnings per share for Common and Class B common stock:				
Basic	**$ 2.77**	$ 2.20	**$ 5.83**	$ 5.54
Diluted	**$ 2.76**	$ 2.20	**$ 5.82**	$ 5.54

See accompanying notes to condensed consolidated unaudited financial statements.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	**$126,206**	$99,655	**$266,695**	$251,369
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	**5,514**	(3,038)	**(6,592)**	7,264
Unrealized (loss) gain on cash flow hedging instruments	**(416)**	255	**948**	(798)
Reclassification of gain on cash flow hedging instruments into earnings	**(509)**	(140)	**(691)**	(542)
Other comprehensive income (loss)	**4,589**	(2,923)	**(6,335)**	5,924
Comprehensive income	**130,795**	96,732	**260,360**	257,293
Less: comprehensive income attributable to non-controlling interest	**21,283**	15,146	**40,986**	44,693
Comprehensive income attributable to Watsco, Inc.	**$109,512**	$81,586	**$219,374**	$212,600

See accompanying notes to condensed consolidated unaudited financial statements.

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

	September 30, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 92,600**	$ 74,454
Accounts receivable, net	**644,124**	533,810
Inventories	**884,653**	920,786
Other current assets	**22,742**	17,680
Total current assets	**1,644,119**	1,546,730
Property and equipment, net	**97,660**	98,523
Operating lease right-of-use assets	**218,884**	223,369
Goodwill	**409,783**	411,217
Intangible assets, net	**164,551**	172,004
Investment in unconsolidated entity	**103,355**	94,833
Other assets	**9,333**	9,485
	$ 2,647,685	$2,556,161
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of lease liabilities	**$ 71,174**	$ 69,421
Accounts payable	**352,694**	239,666
Accrued expenses and other current liabilities	**185,630**	152,630
Total current liabilities	**609,498**	461,717
Long-term obligations:		
Borrowings under revolving credit agreement	**668**	155,700
Operating lease liabilities, net of current portion	**149,075**	154,271
Finance lease liabilities, net of current portion	**3,569**	2,009
Total long-term obligations	**153,312**	311,980
Deferred income taxes and other liabilities	**74,937**	67,697
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, $0.50 par value	**18,830**	18,768
Class B common stock, $0.50 par value	**2,830**	2,765
Preferred stock, $0.50 par value	**—**	—
Paid-in capital	**940,015**	907,877
Accumulated other comprehensive loss, net of tax	**(43,245)**	(39,050)
Retained earnings	**658,622**	632,507
Treasury stock, at cost	**(87,440)**	(87,440)
Total Watsco, Inc. shareholders' equity	**1,489,612**	1,435,427
Non-controlling interest	**320,326**	279,340
Total shareholders' equity	**1,809,938**	1,714,767
	$ 2,647,685	$2,556,161

See accompanying notes to condensed consolidated unaudited financial statements.

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

(In thousands, except share and per share data)	Common Stock, Class B Common Stock and Preferred Stock Shares	Common Stock, Class B Common Stock and Preferred Stock Amount	Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Non-controlling Interest	Total
Balance at December 31, 2019	**38,194,056**	**$ 21,533**	**$907,877**	**$ (39,050)**	**$632,507**	**$(87,440)**	**$ 279,340**	**$1,714,767**
Net income					30,502		5,745	36,247
Other comprehensive (loss)				(12,739)			(6,541)	(19,280)
Issuances of non-vested restricted shares of common stock	113,765	57	(57)					—
Common stock contribution to 401(k) plan	25,216	13	4,530					4,543
Stock issuances from exercise of stock options and employee stock purchase plan	18,674	9	2,532					2,541
Retirement of common stock	(4,828)	(2)	(789)					(791)
Share-based compensation			6,097					6,097
Cash dividends declared and paid on Common and Class B common stock, $1.60 per share					(61,238)			(61,238)
Balance at March 31, 2020	**38,346,883**	**21,610**	**920,190**	**(51,789)**	**601,771**	**(87,440)**	**278,544**	**1,682,886**
Net income					86,578		17,664	104,242
Other comprehensive income				5,521			2,835	8,356
Issuances of non-vested restricted shares of common stock	15,500	8	(8)					—
Stock issuances from exercise of stock options and employee stock purchase plan	32,073	16	4,529					4,545
Retirement of common stock	(6,377)	(4)	(1,092)					(1,096)
Share-based compensation			5,226					5,226
Cash dividends declared and paid on Common and Class B common stock, $1.775 per share					(68,077)			(68,077)
Balance at June 30, 2020	**38,388,079**	**21,630**	**928,845**	**(46,268)**	**620,272**	**(87,440)**	**299,043**	**1,736,082**
Net income					106,489		19,717	126,206
Other comprehensive income				3,023			1,566	4,589
Issuances of non-vested restricted shares of common stock	20,000	10	(10)					—
Forfeitures of non-vested restricted shares of common stock	(3,589)	(2)	2					—
Stock issuances from exercise of stock options and employee stock purchase plan	55,473	28	8,438					8,466
Retirement of common stock	(11,943)	(6)	(2,749)					(2,755)
Share-based compensation			5,489					5,489
Cash dividends declared and paid on Common and Class B common stock, $1.775 per share					(68,139)			(68,139)
Balance at September 30, 2020	**38,448,020**	**$ 21,660**	**$940,015**	**$ (43,245)**	**$658,622**	**$(87,440)**	**$ 320,326**	**$1,809,938**

Continued on next page.

(In thousands, except share and per share data)	**Common Stock, Class B Common Stock and Preferred Stock Shares**	**Common Stock, Class B Common Stock and Preferred Stock Amount**	**Paid-In Capital**	**Accumulated Other Comprehensive Loss**	**Retained Earnings**	**Treasury Stock**	**Non-controlling Interest**	**Total**
Balance at December 31, 2018	**37,461,643**	**$ 21,167**	**$832,121**	**$ (45,968)**	**$627,969**	**$(87,440)**	**$ 253,864**	**$1,601,713**
Net income					35,037		8,767	43,804
Other comprehensive income				2,783			1,412	4,195
Issuances of non-vested restricted shares of common stock	77,049	39	(39)					—
Forfeitures of non-vested restricted shares of common stock	(5,000)	(3)	3					—
Common stock contribution to 401(k) plan	30,715	15	4,259					4,274
Stock issuances from exercise of stock options and employee stock purchase plan	8,925	4	1,121					1,125
Retirement of common stock	(2,985)	(1)	(427)					(428)
Share-based compensation			4,537					4,537
Cash dividends declared and paid on Common and Class B common stock, $1.60 per share					(59,965)			(59,965)
Balance at March 31, 2019	**37,570,347**	**21,221**	**841,575**	**(43,185)**	**603,041**	**(87,440)**	**264,043**	**1,599,255**
Net income					90,155		17,755	107,910
Other comprehensive income				3,039			1,613	4,652
Issuances of non-vested restricted shares of common stock	26,354	13	(13)					—
Stock issuances from exercise of stock options and employee stock purchase plan	15,807	9	1,942					1,951
Retirement of common stock	(3,608)	(2)	(553)					(555)
Share-based compensation			4,324					4,324
Cash dividends declared and paid on Common and Class B common stock, $1.60 per share					(60,213)			(60,213)
Common stock issued for Dunphey & Associates Supply Co., Inc.	50,952	25	7,425					7,450
Investment in unconsolidated entity							988	988
Decrease in non-controlling interest in Carrier Enterprise II			(25,768)				(6,632)	(32,400)
Balance at June 30, 2019	**37,659,852**	**21,266**	**828,932**	**(40,146)**	**632,983**	**(87,440)**	**277,767**	**1,633,362**
Net income					83,480		16,175	99,655
Other comprehensive (loss)				(1,894)			(1,029)	(2,923)
Issuances of non-vested restricted shares of common stock	37,834	19	(19)					—
Forfeitures of non-vested restricted shares of common stock	(5,337)	(3)	3					—
Stock issuances from exercise of stock options and employee stock purchase plan	36,374	19	4,510					4,529
Retirement of common stock	(4,030)	(2)	(667)					(669)
Share-based compensation			3,706					3,706
Cash dividends declared and paid on Common and Class B common stock, $1.60 per share					(60,276)			(60,276)
Common stock issued for Peirce-Phelps, Inc.	372,543	186	58,452					58,638
Investment in Peirce-Phelps, Inc.							17,000	17,000
Balance at September 30, 2019	**38,097,236**	**$ 21,485**	**$894,917**	**$ (42,040)**	**$656,187**	**$(87,440)**	**$ 309,913**	**$1,753,022**

See accompanying notes to condensed consolidated unaudited financial statements.

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

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash flows from operating activities:		
Net income	**$ 266,695**	$ 251,369
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**19,350**	17,983
Share-based compensation	**15,802**	11,992
Non-cash contribution to 401(k) plan	**4,543**	4,274
Deferred income tax provision	**3,177**	2,765
Other income from investment in unconsolidated entity	**(9,172)**	(7,939)
Other, net	**1,776**	1,260
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	**(113,017)**	(102,813)
Inventories	**34,448**	(74,448)
Accounts payable and other liabilities	**158,094**	99,627
Other, net	**(8,918)**	(6,539)
Net cash provided by operating activities	**372,778**	197,531
Cash flows from investing activities:		
Capital expenditures	**(11,608)**	(14,007)
Business acquisitions, net of cash acquired	**—**	(47,343)
Investment in unconsolidated entity	**—**	(4,940)
Proceeds from sale of property and equipment	**61**	1,295
Net cash used in investing activities	**(11,547)**	(64,995)
Cash flows from financing activities:		
Dividends on Common and Class B common stock	**(197,454)**	(180,454)
Net (repayments) proceeds under revolving credit agreement	**(155,032)**	34,100
Repurchases of common stock to satisfy employee withholding tax obligations	**(2,299)**	(1,528)
Net repayments of long-term obligations	**(1,003)**	(920)
Payment of fees related to revolving credit agreement	**(189)**	—
Proceeds from non-controlling interest for investment in unconsolidated entity	**—**	988
Purchase of additional ownership from non-controlling interest	**—**	(32,400)
Proceeds from non-controlling interest for investment in Peirce-Phelps, Inc.	**—**	17,000
Net proceeds from issuances of common stock	**13,207**	7,480
Net cash used in financing activities	**(342,770)**	(155,734)
Effect of foreign exchange rate changes on cash and cash equivalents	**(315)**	454
Net increase (decrease) in cash and cash equivalents	**18,146**	(22,744)
Cash and cash equivalents at beginning of period	**74,454**	82,894
Cash and cash equivalents at end of period	**$ 92,600**	$ 60,150
Supplemental cash flow information:		
Common stock issued for Peirce-Phelps, Inc.	**—**	$ 58,638
Common stock issued for Dunphey & Associates Supply Co., Inc.	**—**	$ 7,450

See accompanying notes to condensed consolidated unaudited financial statements.

1. BASIS OF PRESENTATION

Basis of Consolidation

Watsco, Inc. (collectively with its subsidiaries, "Watsco," "we," "us," or "our") was incorporated in Florida in 1956 and is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry in North America. The accompanying September 30, 2020 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 audited consolidated financial statements and notes thereto included in our 2019 Annual Report on Form 10-K.

On April 3, 2020, United Technologies Corporation completed the spin-off of Carrier Corporation into an independent, publicly traded company, now named Carrier Global Corporation (NYSE: CARR), which we refer to as Carrier. 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, 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 and nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020. Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal. Furthermore, profitability can be impacted favorably or unfavorably based on weather patterns, particularly during the Summer and Winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets we serve tends to be fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

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, net realizable value adjustments to inventories, valuation reserves for income taxes, reserves related to loss contingencies and the valuation of goodwill, indefinite-lived intangible assets and long-lived assets. While we believe that these estimates are reasonable, actual results could differ from such estimates.

Impact of COVID-19 Pandemic

A novel strain of coronavirus, COVID-19, surfaced in December 2019 and has spread around the world, including to the United States. In March 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic has impacted and could further impact our operations and the operations of our suppliers and customers as a result of quarantines, facility closures, illnesses, and travel and logistics restrictions. The extent to which the COVID-19 pandemic continues to impact our business, results of operations, and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the magnitude, duration, spread, severity, and impact of the COVID-19 pandemic, the effects of the COVID-19 pandemic on our employees, customers, suppliers, and vendors, and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession or depression that has occurred as a result of the COVID-19 pandemic. Therefore, we cannot reasonably estimate the impact at this time.

Recently Adopted Accounting Standards

Financial Instruments—Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance that modifies the impairment model to utilize an expected loss methodology in place of the incurred loss methodology for financial instruments, including trade receivables, contract assets, long-term receivables and off-balance sheet credit exposures. Under the new standard, an entity will be required to consider a broader range of information to estimate expected credit losses, including historical information, current conditions and a reasonable forecast period, which may result in earlier recognition of certain losses. This guidance is effective for interim and annual periods beginning after December 15, 2019 using a modified retrospective approach. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Intangibles—Goodwill and Other

In January 2017, the FASB issued guidance to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under this updated standard, an entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, but the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity also should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if any. This guidance is effective prospectively and is effective for interim and annual periods beginning after December 15, 2019 with early adoption permitted. The adoption of this guidance did not have a material impact on our consolidated financial statements.

2. REVENUES

Disaggregation of Revenues

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Primary Geographical Regions:				
United States	**$1,391,340**	$1,232,564	**$3,517,533**	$3,258,283
Canada	**91,429**	85,422	**218,687**	222,429
Latin America and the Caribbean	**53,902**	76,929	**163,992**	217,335
	$1,536,671	$1,394,915	**$3,900,212**	$3,698,047
Major Product Lines:				
HVAC equipment	**70%**	68%	**70%**	68%
Other HVAC products	**27%**	29%	**27%**	28%
Commercial refrigeration products	**3%**	3%	**3%**	4%
	100%	100%	**100%**	100%

3. EARNINGS PER SHARE

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Basic Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$ 106,489**	$ 83,480	**$ 223,569**	$ 208,672
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	**9,146**	6,973	**19,178**	17,326
Earnings allocated to Watsco, Inc. shareholders	**$ 97,343**	$ 76,507	**$ 204,391**	$ 191,346
Weighted-average common shares outstanding - Basic	**35,099,871**	34,755,627	**35,046,156**	34,544,425
Basic earnings per share for Common and Class B common stock	**$ 2.77**	$ 2.20	**$ 5.83**	$ 5.54
Allocation of earnings for Basic:				
Common stock	**$ 90,197**	$ 70,836	**$ 189,364**	$ 177,075
Class B common stock	**7,146**	5,671	**15,027**	14,271
	$ 97,343	$ 76,507	**$ 204,391**	$ 191,346
Diluted Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$ 106,489**	$ 83,480	**$ 223,569**	$ 208,672
Less: distributed and undistributed earnings allocated to non-vested restricted common stock	**9,135**	6,971	**19,175**	17,325
Earnings allocated to Watsco, Inc. shareholders	**$ 97,354**	$ 76,509	**$ 204,394**	$ 191,347
Weighted-average common shares outstanding - Basic	**35,099,871**	34,755,627	**35,046,156**	34,544,425
Effect of dilutive stock options	**137,151**	33,328	**62,887**	25,294
Weighted-average common shares outstanding - Diluted	**35,237,022**	34,788,955	**35,109,043**	34,569,719
Diluted earnings per share for Common and Class B common stock	**$ 2.76**	$ 2.20	**$ 5.82**	$ 5.54
Anti-dilutive stock options not included above	**3,750**	183,083	**27,755**	220,013

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 September 30, 2020 and 2019, our outstanding Class B common stock was convertible into 2,576,570 and 2,576,336 shares of our Common stock, respectively.

4. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (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 (losses) gains on cash flow hedging instruments. The tax effects allocated to each component of other comprehensive income (loss) were as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Foreign currency translation adjustment	**$5,514**	$(3,038)	**$(6,592)**	$ 7,264
Unrealized (loss) gain on cash flow hedging instruments	**(570)**	351	**1,297**	(1,093)
Income tax benefit (expense)	**154**	(96)	**(349)**	295
Unrealized (loss) gain on cash flow hedging instruments, net of tax	**(416)**	255	**948**	(798)
Reclassification of gain on cash flow hedging instruments into earnings	**(697)**	(191)	**(946)**	(742)
Income tax expense	**188**	51	**255**	200
Reclassification of gain on cash flow hedging instruments into earnings, net of tax	**(509)**	(140)	**(691)**	(542)
Other comprehensive income (loss)	**$4,589**	$(2,923)	**$(6,335)**	$ 5,924

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

Nine Months Ended September 30,	2020	2019
Foreign currency translation adjustment:		
Beginning balance	**$(38,599)**	$(46,604)
Current period other comprehensive (loss) income	**(4,349)**	4,732
Ending balance	**(42,948)**	(41,872)
Cash flow hedging instruments:		
Beginning balance	**(451)**	636
Current period other comprehensive income (loss)	**568**	(479)
Reclassification adjustment	**(414)**	(325)
Ending balance	**(297)**	(168)
Accumulated other comprehensive loss, net of tax	**$(43,245)**	$(42,040)

5. PURCHASE OF OWNERSHIP INTEREST FROM JOINT VENTURE

Effective May 31, 2019, we purchased an additional 20% ownership interest in Homans Associates II LLC ("Homans") from our second joint venture with Carrier, Carrier Enterprise Northeast, LLC, which we refer to as Carrier Enterprise II, for cash consideration of $32,400, which increased our ownership in Homans to 100%. Homans previously operated as a division of Carrier Enterprise II and subsequent to the purchase operates as a wholly owned subsidiary of the Company with 17 locations in the Northeastern U.S.

6. INVESTMENT IN UNCONSOLIDATED ENTITY

On June 21, 2017, our first joint venture with Carrier, Carrier Enterprise, LLC, which we refer to as Carrier Enterprise I, acquired a 34.9% ownership interest in Russell Sigler, Inc. ("RSI"), an HVAC distributor operating from 30 locations in the Western U.S. We have an 80% controlling interest in Carrier Enterprise I, and Carrier has a 20% non-controlling interest. Carrier Enterprise I acquired its ownership interest in RSI for cash consideration of $63,600, of which we contributed $50,880 and Carrier contributed $12,720. Effective June 29, 2018, Carrier Enterprise I acquired an additional 1.4% ownership interest in RSI, which increased Carrier Enterprise I's ownership interest in RSI to 36.3% for cash consideration of $3,760, of which we contributed $3,008 and Carrier contributed $752. Effective April 22, 2019, Carrier Enterprise I acquired an additional 1.8% ownership interest in RSI for cash consideration of $4,940, of which we contributed $3,952 and Carrier contributed $988. This acquisition increased Carrier Enterprise I's ownership interest in RSI to 38.1%.

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

7. ACQUISITIONS

N&S Supply of Fishkill, Inc.

On November 26, 2019, one of our wholly owned subsidiaries acquired certain assets and assumed certain liabilities of N&S Supply of Fishkill, Inc., a distributor of air conditioning, heating and plumbing products operating from seven locations in New York and Connecticut. The purchase price was composed of cash consideration of $12,000, the issuance of 22,435 shares of Common stock having a fair value of $4,032 and the repayment of certain indebtedness. The purchase price resulted in the recognition of $2,644 in goodwill. The tax basis of such goodwill is deductible for income tax purposes over 15 years.

Peirce-Phelps, Inc.

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

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

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

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

Dunphey & Associates Supply Co., Inc.

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

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

8. DEBT

We maintain an unsecured, syndicated multicurrency revolving credit agreement, which we use to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends (if and as declared by our Board of Directors), capital expenditures, stock repurchases and issuances of letters of credit. On April 10, 2020, we increased the aggregate borrowing capacity of our revolving credit agreement from $500,000 to $560,000. The credit agreement matures on December 5, 2023.

At September 30, 2020 and December 31, 2019, $668 and $155,700, respectively, were outstanding under the revolving credit agreement. The revolving credit agreement contains customary affirmative and negative covenants, including financial covenants with respect to consolidated leverage and interest coverage ratios, and other customary restrictions. We believe we were in compliance with all covenants at September 30, 2020.

9. DERIVATIVES

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

Cash Flow Hedging Instruments

We enter into foreign currency forward contracts that are designated as cash flow hedges. The settlement of these derivatives results in reclassifications from accumulated other comprehensive loss to earnings for the period in which the settlement of these instruments occurs. The maximum period for which we hedge our cash flow using these instruments is 12 months. Accordingly, at September 30, 2020, 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 September 30, 2020 was $11,000, and such contracts have varying terms expiring through January 2021.

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(Loss) gain recorded in accumulated other comprehensive loss	**$(570)**	$ 351	**$1,297**	$(1,093)
Gain reclassified from accumulated other comprehensive loss into earnings	**$(697)**	$(191)	**$ (946)**	$ (742)

At September 30, 2020, we expected an estimated $682 pre-tax loss 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 have also entered into foreign currency forward and option contracts that are either not designated as hedges or did not qualify for hedge accounting. These derivative instruments were effective economic hedges for all of the periods presented. The fair value gains and losses on these contracts are recognized in earnings as a component of selling, general and administrative expenses. The total notional value of our foreign currency exchange contracts not designated as hedging instruments at September 30, 2020 was $4,600, and such contracts subsequently expired during October 2020.

We recognized (losses) gains of $(454) and $128 from foreign currency forward and option contracts not designated as hedging instruments in our condensed consolidated unaudited statements of income for the quarters ended September 30, 2020 and 2019, respectively. We recognized gains (losses) of $57 and $(175) from foreign currency forward and option contracts not designated as hedging instruments in our condensed consolidated unaudited statements of income for the nine months ended September 30, 2020 and 2019, respectively.

The following table summarizes the fair value of derivative instruments, which consist solely of foreign exchange contracts, included in other current assets and accrued expenses and other current liabilities in our condensed consolidated unaudited balance sheets. See Note 10.

	Asset Derivatives		Liability Derivatives	
	September 30, 2020	**December 31, 2019**	**September 30, 2020**	**December 31, 2019**
Derivatives designated as hedging instruments	$ —	$ —	**$ 394**	$ 944
Derivatives not designated as hedging instruments	**6**	—	**—**	63
Total derivative instruments	**$ 6**	$ —	**$ 394**	$ 1,007

10. 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 September 30, 2020 Using		
			Level 1	Level 2	Level 3
Assets:					
Derivative financial instruments	Other current assets	**$ 6**	**$ —**	**$ 6**	**$ —**
Equity securities	Other assets	**$ 442**	**$ 442**	**$ —**	**$ —**
Liabilities:					
Derivative financial instruments	Accrued expenses and other current liabilities	**$ 394**	**$ —**	**$ 394**	**$ —**

	Balance Sheet Location	Total	Fair Value Measurements at December 31, 2019 Using		
			Level 1	Level 2	Level 3
Assets:					
Equity securities	Other assets	$ 402	$ 402	$ —	$ —
Liabilities:					
Derivative financial instruments	Accrued expenses and other current liabilities	$1,007	$ —	$1,007	$ —

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

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

Derivative financial instruments – these derivatives are foreign currency forward and option contracts. See Note 9. 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.

11. SHAREHOLDERS’ EQUITY

Common Stock Dividends

We paid cash dividends of $1.775, $1.60, $5.15, and $4.80 per share of both Common stock and Class B common stock during the quarters and nine months ended September 30, 2020 and 2019, respectively.

Non-Vested Restricted Stock

During the quarter and nine months ended September 30, 2020, 5,361 shares of Common and Class B common stock with an aggregate fair market value of $1,265, and 11,693 shares of Common and Class B common stock with an aggregate fair market value of $2,299, respectively, were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of non-vested restricted stock. These shares were retired upon delivery. During the quarter and nine months ended September 30, 2019, 3,231 shares of Common stock with an aggregate fair market value of $535, and 9,824 shares of Common and Class B common stock with an aggregate fair market value of $1,518, respectively, were withheld as payment in lieu of cash to satisfy tax withholding obligations in connection with the vesting of non-vested restricted stock. These shares were retired upon delivery.

Exercise of Stock Options

Cash received from Common stock issued as a result of stock options exercised during the quarters and nine months ended September 30, 2020 and 2019, was $6,573, $3,986, $11,978, and $6,229, respectively.

During the quarter and nine months ended September 30, 2020, 6,582 shares of Common stock with an aggregate fair market value of $1,490, and 11,455 shares of Common stock with an aggregate fair market value of $2,343, respectively, were withheld as payment in lieu of cash for stock option exercises. These shares were retired upon delivery. During both the quarter and nine months ended September 30, 2019, 799 shares of Common stock with an aggregate fair market value of $134 were withheld as payment in lieu of cash for stock option exercises. These shares were retired upon delivery.

Employee Stock Purchase Plan

During the quarters ended September 30, 2020 and 2019, we received net proceeds of $401 and $418, respectively, for shares of our Common stock purchased under our employee stock purchase plan. During the nine months ended September 30, 2020 and 2019, we received net proceeds of $1,229 and $1,251, respectively, for shares of our Common stock purchased under our employee stock purchase plan.

12. 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 $5,249 and $3,062 at September 30, 2020 and December 31, 2019, respectively, were established related to such programs and are included in accrued expenses and other current liabilities in our condensed consolidated unaudited balance sheets.

13. RELATED PARTY TRANSACTIONS

Purchases from Carrier and its affiliates comprised 65% and 60% of all inventory purchases made during the quarters ended September 30, 2020 and 2019, respectively. Purchases from Carrier and its affiliates comprised 62% and 61% of all inventory purchases made during the nine months ended September 30, 2020 and 2019, respectively. At September 30, 2020 and December 31, 2019, approximately $106,000 and $86,000, 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 and nine months ended September 30, 2020 and 2019 included approximately $27,000, $24,000, $82,000, and $68,000, respectively, of sales to Carrier and its affiliates. We believe these transactions are conducted on arm’s-length terms in the ordinary course of business.

A member of our Board of Directors is the Senior Chairman of Greenberg Traurig, P.A., which serves as our principal outside counsel for compliance and acquisition-related legal services. During the quarters and nine months ended September 30, 2020 and 2019, fees to this firm for services performed were $28, $175, $28, and $175, respectively, and $28 was payable at September 30, 2020.

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,” “goal,” “designed,” and variations of these words and negatives thereof and similar expressions are intended to identify forward-looking statements, including statements regarding, among others, (i) economic conditions, (ii) business and acquisition strategies, (iii) potential acquisitions and/or joint ventures and investments in unconsolidated entities, (iv) financing plans, and (v) industry, demographic and other trends affecting our financial condition or results of operations. These forward-looking statements are based on management’s current expectations, are not guarantees of future performance and are subject to a number of risks, uncertainties, and changes in circumstances, certain of which are beyond our control. Actual results could differ materially from these forward-looking statements as a result of several factors, including, but not limited to:

- general economic conditions, both in the United States and in the international markets we serve;
- competitive factors within the HVAC/R industry;

- effects of supplier concentration;
- fluctuations in certain commodity costs;
- consumer spending;
- consumer debt levels;
- the continued impact of the COVID-19 pandemic;
- new housing starts and completions;
- capital spending in the commercial construction market;
- access to liquidity needed for operations;
- seasonal nature of product sales;
- weather patterns and conditions;
- insurance coverage risks;
- federal, state, and local regulations impacting our industry and products;
- prevailing interest rates;
- foreign currency exchange rate fluctuations;
- international risk;
- cybersecurity risk; and
- the continued viability of our business strategy.

We believe these forward-looking statements are reasonable; however, you should not place undue reliance on any forward-looking statements, which are based on current expectations. For additional information regarding important factors that may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, please see the discussion below under Impact of the COVID-19 Pandemic, Item 1A "Risk Factors" contained in Part II of this Quarterly Report on this Form 10-Q and Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2019, 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.

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 the 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, 2019.

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 September 30, 2020, we operated from 603 locations in 38 U.S. States, Canada, Mexico, and Puerto Rico with additional market coverage on an export basis to portions of Latin America and the Caribbean.

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

Sales of residential central air conditioners, heating equipment, and parts and supplies are seasonal. Furthermore, profitability can be impacted favorably or unfavorably based on weather patterns, particularly during the Summer and Winter selling seasons. Demand related to the residential central air conditioning replacement market is typically highest in the second and third quarters, and demand for heating equipment is usually highest in the fourth quarter. Demand related to the new construction sectors throughout most of the markets we serve tends to be fairly evenly distributed throughout the year and depends largely on housing completions and related weather and economic conditions.

Impact of the COVID-19 Pandemic

A novel strain of coronavirus, COVID-19, surfaced in December 2019 and has spread around the world, including to the United States. In March 2020, the World Health Organization declared COVID-19 a pandemic. For certain periods of the pandemic thus far, some U.S. states had been under executive orders requiring that all workers remain at home unless their work was critical, essential, or life-sustaining. We believe that, based on the various standards published to date, the work our employees perform is essential, and as such we continued to operate with certain modifications during these periods. A few of our locations experienced short-term closures for COVID-19 employee health concerns or operated at a diminished capacity, which negatively impacted business during the second quarter of 2020. At the end of the second quarter of 2020, many of the markets in which we operate had begun to ease COVID-19 restrictions that had been in place earlier in the period. However, during the third quarter of 2020, viral infections began to increase, resulting in the resumption of restrictions in certain markets in which we operate. As of the date of this filing, all of our locations are operating, and we have instituted contactless sales and servicing capabilities at many of our locations designed to safeguard our employees and customers. In light of the continued high rate of viral infections that exists as of the date of this filing, there remains significant uncertainty concerning the magnitude of the impact and duration of the COVID-19 pandemic.

In response to the pandemic, we have implemented plans intended to preserve adequate liquidity and ensure that our business can continue to operate during this uncertain time. In addition, we have taken actions to reduce costs, including reductions in compensation, rent abatement, changes to vendor terms and other austerity measures to curtail discretionary spending in light of the circumstances. Other costs, including hourly wages, overtime, sales commissions, temporary labor, performance-based compensation, advertising, and delivery expenses are expected to vary in correlation with our overall business activity. If and to the extent restrictions ease and normal economic conditions and operations resume, the various austerity measures to curtail discretionary spending may ease.

With respect to liquidity, we believe that our balance sheet remains strong with $92.6 million in cash, $0.7 million in borrowings drawn from our $560.0 million credit facility and $1.8 billion of shareholders' equity as of September 30, 2020. Our philosophy toward quarterly dividends remains currently unchanged, most recently at $1.775 per share. Future dividends and/or changes in dividend rates are at the sole discretion of the Board of Directors and depend upon factors including, but not limited to, cash flow generated by operations, profitability, financial condition, cash requirements, and future prospects. During these uncertain times, we believe that our scale, our current low debt-level, conservative leverage ratio, and our historical ability to generate cash flow positions us well as we work through the impacts of the COVID-19 pandemic.

The full impact of the COVID-19 pandemic on our financial condition and results of operations will depend on future developments, such as the ultimate duration and scope of the pandemic, its impact on our employees, customers, and suppliers, how quickly normal economic conditions and operations resume and whether the pandemic exacerbates other risks disclosed in Item 1A "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2019. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers and shareholders.

Joint Ventures with Carrier Global Corporation

On April 3, 2020, United Technologies Corporation completed the spin-off of Carrier Corporation into an independent, publicly traded company, named Carrier Global Corporation ("Carrier").

In 2009, we formed a joint venture with Carrier, which we refer to as Carrier Enterprise I, in which Carrier contributed 95 of its company-owned locations in 13 Sun Belt states and Puerto Rico, and its export division in Miami, Florida, and we contributed 15 locations that distributed Carrier products. We have an 80% controlling interest in Carrier Enterprise I, and Carrier has a 20% non-controlling interest. On August 1, 2019, Carrier Enterprise I acquired substantially all of the HVAC assets and assumed certain of the liabilities of Peirce-Phelps, Inc. ("PPI"), an HVAC distributor operating from 19 locations in Pennsylvania, New Jersey, and Delaware.

In 2011, we formed a second joint venture with Carrier, in which Carrier contributed 28 of its company-owned locations in the Northeast U.S., and we contributed 14 locations in the Northeast U.S., and we then 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 an 80% controlling interest in Carrier Enterprise II, and Carrier has a 20% non-controlling interest. Effective May 31, 2019, we purchased an additional 20% ownership interest in Homans Associates II LLC ("Homans") from Carrier Enterprise II, following which we owned 100% of Homans. Homans previously operated as a division of Carrier Enterprise II and now operates as one of our stand-alone, wholly owned subsidiaries.

In 2012, we formed a third joint venture, which we refer to as Carrier Enterprise III, with 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 Carrier has a 40% non-controlling 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 condensed consolidated unaudited 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 2019 Annual Report on Form 10-K, as filed with the SEC on February 28, 2020. We believe that there have been no significant changes during the quarter ended September 30, 2020 to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

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 recently adopted accounting standards.

Results of Operations

The following table summarizes information derived from our condensed consolidated unaudited statements of income, expressed as a percentage of revenues, for the quarters and nine months ended September 30, 2020 and 2019:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**75.7**	76.0	**75.9**	75.8
Gross profit	**24.3**	24.0	**24.1**	24.2
Selling, general and administrative expenses	**14.4**	15.3	**15.9**	15.9
Other income	**0.3**	0.3	**0.2**	0.2
Operating income	**10.2**	9.0	**8.5**	8.5
Interest expense, net	**0.0**	0.1	**0.0**	0.1
Income before income taxes	**10.2**	8.9	**8.5**	8.4
Income taxes	**2.0**	1.7	**1.6**	1.6
Net income	**8.2**	7.1	**6.8**	6.8
Less: net income attributable to non-controlling interest	**1.3**	1.2	**1.1**	1.2
Net income attributable to Watsco, Inc.	**6.9%**	6.0%	**5.7%**	5.6%

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

The following narratives reflect our acquisition of the HVAC distribution businesses of N&S Supply of Fishkill, Inc. ("N&S") in November 2019, PPI in August 2019, Dunphey & Associates Supply Co., Inc. ("DASCO") in April 2019, as well as the purchase of an additional 1.8% ownership interest in Russell Sigler, Inc. ("RSI") in April 2019, and the purchase of an additional 20% ownership interest in Homans effective May 31, 2019. We did not acquire any businesses during the quarter or nine months ended September 30, 2020.

In the following narratives, computations and other information referring to "same-store basis" exclude the effects of locations closed, acquired, or locations opened, in each case during the immediately preceding 12 months, unless such locations are within close geographical proximity to existing locations. At September 30, 2020 and 2019, two and 10 locations, respectively, that we opened were near existing locations and were therefore included in "same-store basis" information.

The table below summarizes the changes in our locations for the 12 months ended September 30, 2020:

	Number of Locations
September 30, 2019	603
Acquired	7
Closed	(4)
December 31, 2019	606
Opened	3
Closed	(6)
September 30, 2020	**603**

Third Quarter of 2020 Compared to Third Quarter of 2019

Revenues

Revenues for the third quarter of 2020 increased $141.8 million, or 10%, including $38.1 million attributable to new locations acquired and $1.3 million from other locations opened during the preceding 12 months, offset by $2.4 million from locations closed. Sales of HVAC equipment (70% of sales) increased 12%, sales of other HVAC products (27% of sales) increased 4% and sales of commercial refrigeration products (3% of sales) remained flat. On a same-store basis, revenues increased $104.8 million, or 8%, as compared to the same period in 2019, reflecting a 10% increase in sales of HVAC equipment (70% of sales), which included a 17% increase of residential HVAC equipment (19% increase in U.S. markets and a 3% increase in international markets) and a 17% decrease in sales of commercial HVAC equipment, a 2% increase in sales of other HVAC products (27% of sales) and flat sales of commercial refrigeration products (3% of sales). The increase in same-store revenues of HVAC equipment was primarily due to strong demand for the replacement of residential HVAC equipment and an increased mix of high-efficiency air conditioning and heating systems, which sell at higher unit prices, partially offset by lower sales of commercial HVAC equipment due to the pandemic-related market disruption. The increase in residential HVAC equipment was composed of an 18% increase in volume and a 1% increase in the average selling price.

Gross Profit

Gross profit for the third quarter of 2020 increased $39.1 million, or 12%, primarily as a result of increased revenues. Gross profit margin for the quarter ended September 30, 2020 improved 30 basis-points to 24.3% versus 24.0% for the same period in 2019, primarily due to higher realized gross margins for residential HVAC equipment.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the third quarter of 2020 increased $8.1 million, or 4%, primarily due to increased revenues. Selling, general and administrative expenses as a percent of revenues for the third quarter of 2020 decreased to 14.4% versus 15.3% for the same period in 2019. On a same-store basis, selling, general and administrative expenses were flat as compared to the same period in 2019 primarily due to actions taken to improve operating efficiency and to reduce costs and curtail discretionary spending in response to the pandemic. Selling, general and administrative expenses included $0.2 million of additional costs for 2020 in excess of 2019 for ongoing technology initiatives, including initiatives designed to ameliorate the impact of, or otherwise address, the pandemic.

Other Income

Other income of $4.1 million and $3.5 million for the third quarters of 2020 and 2019, respectively, represented our share of the net income of RSI.

Interest Expense, Net

Interest expense, net for the third quarter of 2020 decreased $1.3 million, or 92%, primarily as a result of a decrease in average outstanding borrowings and a lower effective interest rate for the 2020 period, in each case under our revolving credit facility, as compared to the same period in 2019.

Income Taxes

Income taxes increased to $30.5 million for the third quarter of 2020, as compared to $24.2 million for the third quarter of 2019 and represent a composite of the income taxes attributable to our wholly owned operations and income taxes attributable to the Carrier joint ventures, which are primarily taxed as partnerships for income tax purposes; therefore, Carrier is responsible for its proportionate share of income taxes attributable to its share of earnings from these joint ventures. The effective income tax rate attributable to us was consistent at 22.2% for both quarters ended September 30, 2020 and 2019.

Income Attributable to Watsco, Inc.

Net income attributable to Watsco for the quarter ended September 30, 2020 increased $23.0 million, or 28%, compared to the same period in 2019. The increase was primarily driven by higher revenues and gross profit, and reduced selling, general and administrative expenses as a percentage of revenues.

Nine Months Ended September 30, 2020 Compared to Nine Months Ended September 30, 2019

Revenues

Revenues for the nine months ended September 30, 2020 increased $202.2 million, or 5%, including $165.7 million attributable to new locations acquired and $3.6 million from other locations opened during the preceding 12 months, offset by $10.2 million from locations closed. Sales of HVAC equipment (70% of sales) increased 7%, sales of other HVAC products (27% of sales) increased 2% and sales of commercial refrigeration products (3% of sales) decreased 5%. On a same-store basis, revenues increased $43.1 million, or 1%, as compared to the same period in 2019, reflecting a 3% increase in sales of HVAC equipment (69% of sales), which included a 7% increase in residential HVAC equipment (8% increase in U.S. markets and a 4% decrease in international markets) and a 15% decrease in sales of commercial HVAC equipment, a 2% decrease in sales of other HVAC products (27% of sales) and a 5% decrease in commercial refrigeration products (4% of sales). The increase in same-store revenues of HVAC equipment was primarily due to demand for the replacement of residential HVAC equipment, partially offset by lower sales of commercial HVAC equipment due to the pandemic-related market disruption. The increase in residential HVAC equipment was composed of an 8% increase in volume while the average selling price remained flat.

Gross Profit

Gross profit for the nine months ended September 30, 2020 increased $44.1 million, or 5%, primarily as a result of increased revenues. Gross profit margin for the nine months ended September 30, 2020 declined 10 basis-points to 24.1% versus 24.2% for the same period in 2019, primarily due to a shift in sales mix toward HVAC equipment, which generates a lower gross profit margin than non-equipment products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the nine months ended September 30, 2020 increased $29.0 million, or 5%, primarily due to increased revenues. Selling, general and administrative expenses as a percentage of revenues remained consistent at 15.9% for the nine months ended September 30, 2020 as compared to the same period in 2019. On a same-store basis, selling, general and administrative expenses decreased 1% as compared to the same period in 2019 primarily due to actions taken to improve operating efficiencies and to reduce costs and curtail discretionary spending in response to the pandemic. Selling, general and administrative expenses included $1.8 million of additional costs for 2020 in excess of 2019 for ongoing technology initiatives, including initiatives designed to ameliorate the impact of, or otherwise address, the pandemic.

Other Income

Other income of $9.2 million and $7.9 million for the nine months ended September 30, 2020 and 2019, respectively, represented our share of the net income of RSI.

Interest Expense, Net

Interest expense, net for the nine months ended September 30, 2020 decreased $2.2 million, or 65%, primarily as a result of a decrease in average outstanding borrowings and a lower effective interest rate for the 2020 period, in each case under our revolving credit facility, as compared to the same period in 2019.

Income Taxes

Income taxes increased to $63.4 million for the nine months ended September 30, 2020, as compared to $60.1 million for the nine months ended September 30, 2019 and represent a composite of the income taxes attributable to our wholly owned operations and income taxes attributable to the Carrier joint ventures, which are primarily taxed as partnerships for income tax purposes; therefore, Carrier is responsible for its proportionate share of income taxes attributable to its share of earnings from these joint ventures. The effective income tax rates attributable to us were 22.0% and 22.1% for the nine months ended September 30, 2020 and 2019, respectively. The decrease was primarily due to higher share-based payment tax benefits in 2020 as compared to the same period in 2019.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco for the nine months ended September 30, 2020 increased $14.9 million, or 7%, compared to the same period in 2019. The increase was primarily driven by higher revenues and gross profit, and lower interest expense, net.

Liquidity and Capital Resources

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

- cash needed to fund our business (primarily working capital requirements);
- borrowing capacity under our revolving credit facility;
- the ability to attract long-term capital with satisfactory terms;
- acquisitions, including joint ventures and investments in unconsolidated entities;
- dividend payments;
- capital expenditures; and
- the timing and extent of common stock repurchases.

Sources and Uses of Cash

We rely on cash flows from operations and borrowing capacity under our revolving credit agreement to fund seasonal working capital needs and for other general corporate purposes, including dividend payments (if and as declared by our Board of Directors), capital expenditures, business acquisitions, and development of our long-term operating and technology strategies. Additionally, we may also generate cash through the issuance and sale of our Common stock.

As of September 30, 2020, we had $92.6 million of cash and cash equivalents, of which $64.7 million was held by foreign subsidiaries. The repatriation of cash balances from our foreign subsidiaries could have adverse tax impacts or be subject to capital controls; however, these balances are generally available to fund the ordinary business operations of our foreign subsidiaries without legal restrictions.

We believe that our operating cash flows, cash on hand, and funds available for borrowing under our revolving credit agreement are 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 revolving credit agreement depends on the ability of the syndicate banks to meet their respective funding commitments. Disruptions in the credit and capital markets could adversely affect our ability to draw on our revolving credit agreement and may also adversely affect the determination of interest rates, particularly rates based on LIBOR, which is one of the base rates under our revolving credit agreement. LIBOR is the subject of recent proposals for reform that currently provide for the phase-out of LIBOR by 2021. The consequences of these developments with respect to LIBOR cannot be entirely predicted but could result in an increase in the cost of our debt, as it is currently anticipated that lenders will replace LIBOR with the Secured Overnight Financing Rate (“SOFR”), which may exceed what would have been the comparable LIBOR rate. We believe that the transition from LIBOR will not materially impact our financial position or results of operations. Additionally, disruptions in the credit and capital markets could also result in increased borrowing costs and/or reduced borrowing capacity under our revolving credit agreement.

Working Capital

Working capital decreased to $1,034.6 million at September 30, 2020 from $1,085.0 million at December 31, 2019, reflecting lower levels of inventory from inventory optimization activities and due to pandemic-related supply chain disruptions, resulting in reduced purchases in 2020 versus 2019, higher levels of accounts payable and accrued expenses, which were offset by higher levels of accounts receivable due to the seasonality of our business.

Cash Flows

The following table summarizes our cash flow activity for the nine months ended September 30, 2020 and 2019 (in millions):

	2020	2019	Change
Cash flows provided by operating activities	**$ 372.8**	$ 197.5	$ 175.3
Cash flows used in investing activities	**$ (11.5)**	$ (65.0)	$ 53.5
Cash flows used in financing activities	**$(342.8)**	$(155.7)	$(187.1)

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 a reduction in the level of inventories and the comparative timing of payments for accrued expenses and other current liabilities in 2020 versus 2019.

Investing Activities

Net cash used in investing activities was lower in 2020 due to cash consideration paid for acquisitions and the purchase of an additional ownership interest in RSI in 2019.

Financing Activities

The increase in net cash used in financing activities was primarily attributable to net repayments under our revolving credit agreement and an increase in dividends paid in 2020.

Revolving Credit Agreement

We maintain an unsecured, syndicated multicurrency revolving credit agreement, which we use to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends (if and as declared by our Board of Directors), capital expenditures, stock repurchases and issuances of letters of credit. On April 10, 2020, we increased the aggregate borrowing capacity of our revolving credit agreement from $500.0 million to $560.0 million. The credit agreement matures on December 5, 2023.

At September 30, 2020 and December 31, 2019, $0.7 million and $155.7 million, respectively, were outstanding under the revolving credit agreement. The revolving credit agreement contains customary affirmative and negative covenants, including financial covenants with respect to consolidated leverage and interest coverage ratios, and other customary restrictions. We believe we were in compliance with all covenants at September 30, 2020.

Purchase of Additional Ownership Interest from Joint Venture

Effective May 31, 2019, we purchased an additional 20% ownership interest in Homans from Carrier Enterprise II for cash consideration of $32.4 million, which increased our ownership in Homans to 100%. Homans previously operated as a division of Carrier Enterprise II and subsequent to the purchase operates as a wholly owned subsidiary of the Company with 17 locations in the Northeastern U.S.

Investment in Unconsolidated Entity

On June 21, 2017, Carrier Enterprise I acquired a 34.9% ownership interest in RSI, an HVAC distributor operating from 30 locations in the Western U.S. for cash consideration of $63.6 million, of which we contributed $50.9 million, and Carrier contributed $12.7 million. Effective June 29, 2018, Carrier Enterprise I acquired an additional 1.4% ownership interest in RSI, which increased Carrier Enterprise I’s ownership interest in RSI to 36.3% for cash consideration of $3.8 million, of which we contributed $3.0 million and Carrier contributed $0.8 million. Effective April 22, 2019, Carrier Enterprise I acquired an additional 1.8% ownership interest in RSI, which increased Carrier Enterprise I’s ownership interest in RSI to 38.1% for cash consideration of $4.9 million, of which we contributed $3.9 million and Carrier contributed $1.0 million.

Carrier Enterprise I is a party to a shareholders’ agreement (the “Shareholders’ Agreement”) with RSI and its shareholders. Pursuant to the Shareholders’ Agreement, RSI’s shareholders have the right to sell, and Carrier Enterprise I has the obligation to purchase, their respective shares of RSI for a purchase price determined based on either book value or a multiple of EBIT, the latter of which Carrier Enterprise I used to calculate the price paid for its investment in RSI. RSI’s shareholders may transfer their respective shares of RSI common stock only to members of the Sigler family or to Carrier Enterprise I, and, at any time from and after the date on which Carrier Enterprise I owns 85% or more of RSI’s outstanding common stock, it has the right, but not the obligation, to purchase from RSI’s shareholders the remaining outstanding shares of RSI common stock. At September 30, 2020, the estimated purchase amount we would be contingently liable for was approximately $183.0 million. We believe that our operating cash flows, cash on hand, and funds available for borrowing under our revolving credit agreement will be sufficient to purchase any additional ownership interests in RSI.

Acquisitions

On November 26, 2019, one of our wholly owned subsidiaries acquired certain assets and assumed certain liabilities of N&S, a distributor of air conditioning, heating and plumbing products operating from seven locations in New York and Connecticut. The purchase price was composed of cash consideration of $12.0 million, the issuance of 22,435 shares of Common stock having a fair value of $4.0 million and the payment of certain indebtedness.

On August 1, 2019, Carrier Enterprise I acquired substantially all the HVAC assets and assumed certain of the liabilities of PPI, an HVAC distributor operating from 19 locations in Pennsylvania, New Jersey, and Delaware, for $85.0 million less certain average revolving indebtedness. Consideration for the net purchase price consisted of $10.0 million in cash, 372,543 shares of Common stock having a fair value of $58.3 million, net of a discount for lack of marketability, and the payment of certain average revolving indebtedness. Carrier contributed cash of $17.0 million to Carrier Enterprise I in connection with the acquisition of PPI.

On April 2, 2019, one of our wholly owned subsidiaries acquired certain assets and assumed certain liabilities of DASCO, a distributor of air conditioning and heating products operating from seven locations in New Jersey, New York and Connecticut. The purchase price was composed of cash consideration of $16.8 million and the issuance of 50,952 shares of Common stock having a fair value of $6.9 million, net of a discount for lack of marketability.

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

Common Stock Dividends

We paid cash dividends of $5.15 and $4.80 per share of Common stock and Class B common stock during the nine months ended September 30, 2020 and 2019, respectively. On October 1, 2020, our Board of Directors declared a regular quarterly cash dividend of $1.775 per share of both Common and Class B common stock that was paid on October 30, 2020 to shareholders of record as of October 15, 2020. Future dividends and/or changes in dividend rates are at the sole discretion of the Board of Directors and depend upon factors including, but not limited to, cash flow generated by operations, profitability, financial condition, cash requirements, and future prospects.

Company Share Repurchase Program

In September 1999, our Board of Directors authorized the repurchase, at management’s discretion, of up to 7,500,000 shares of common stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders’ equity. We last repurchased shares under this plan in 2008. In aggregate, 6,370,913 shares of Common and Class B common stock have been repurchased at a cost of $114.4 million since the inception of the program. At September 30, 2020, 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, 2019.

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”), Executive Vice President (“EVP”) and Chief Financial Officer (“CFO”), to allow for timely decisions regarding required disclosure and appropriate SEC filings.

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

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 September 30, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In accordance with the rules and regulations of the SEC, we have not yet assessed the internal control over financial reporting of N&S, PPI or DASCO, which collectively represented approximately 7% of our total consolidated assets at September 30, 2020 and approximately 6% of our consolidated revenues for the quarter ended September 30, 2020. From the respective acquisition dates of November 26, 2019, August 1, 2019 and April 2, 2019 to September 30, 2020, the processes and systems of N&S, PPI and DASCO did not impact the internal controls over financial reporting for our other consolidated subsidiaries.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 12 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 September 30, 2020 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, 2019 except as set forth below.

COVID-19 Pandemic

A novel strain of coronavirus, COVID-19, surfaced in December 2019 and has spread around the world, including to the United States. In March 2020, the World Health Organization declared COVID-19 a pandemic. The COVID-19 pandemic began to impact our operations late in the first quarter of 2020 and could continue to adversely affect our business and results of operations, including as government authorities impose or reimpose mandatory closures, work-from-home orders and social distancing protocols, or impose other restrictions. These actions could materially adversely affect our ability to adequately staff and maintain our operations, impair our ability to sustain sufficient financial liquidity and adversely impact our financial results.

COVID-19 related factors that have impacted, or may negatively impact, sales, gross margin and other results of operations in the future include, but are not limited to: limitations on the ability of our suppliers to manufacture, or procure from manufacturers, the products we sell, or to meet delivery requirements and commitments; limitations on the ability of our employees to perform their work due to illness or other disruptions caused by the pandemic, including local, state, or federal orders requiring employees to remain at home; limitations on the ability of carriers to deliver our products to customers; limitations on the ability of our customers to conduct their businesses and purchase our products; and limitations on the ability of our customers to pay us on a timely basis. Moreover, the COVID-19 pandemic could alter the mix of our business due to a shift in consumer demand towards repair of equipment rather than replacement, as well as changes in our sales mix toward value-oriented equipment and lower demand and/or disruption to new construction and commercial markets, which would result in a reduction in our sales and consequential gross margin.

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

ITEM 6. EXHIBITS

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 Executive 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, Executive 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 - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH #	Inline XBRL Taxonomy Extension Schema Document.
101.CAL #	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF #	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB #	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE #	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in Inline XBRL.

\# 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: November 5, 2020

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

Exhibit 31.1

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

I, Albert H. Nahmad, certify that:

1. I have reviewed this 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: November 5, 2020

/s/ Albert H. Nahmad

Albert H. Nahmad
Chief Executive Officer

Exhibit 31.2

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

I, Barry S. Logan, certify that:

1. I have reviewed this 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: November 5, 2020

/s/ Barry S. Logan
Barry S. Logan
Executive Vice President

Exhibit 31.3

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

I, Ana M. Menendez, certify that:

1. I have reviewed this 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: November 5, 2020

/s/ Ana M. Menendez

Ana M. Menendez
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Watsco, Inc. (“Watsco”) for the quarter and nine months ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Albert H. Nahmad, as Chief Executive Officer of Watsco, Barry S. Logan, as Executive Vice President of Watsco and Ana M. Menendez, as Chief Financial Officer of Watsco, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Watsco.

/s/ Albert H. Nahmad
Albert H. Nahmad
Chief Executive Officer
November 5, 2020

/s/ Barry S. Logan
Barry S. Logan
Executive Vice President
November 5, 2020

/s/ Ana M. Menendez
Ana M. Menendez
Chief Financial Officer
November 5, 2020

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.