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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2013

or

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

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

Commission file number 1-5581

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

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**WATSCO, INC.**

(a Florida Corporation)

2665 South Bayshore Drive, Suite 901

Miami, Florida 33133

Telephone: (305) 714-4100

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 29,973,545 shares of Common stock (\$0.50 par value), excluding treasury shares of 6,322,650 and 4,661,606 shares of Class B common stock (\$0.50 par value), excluding treasury shares of 48,263, were outstanding as of April 25, 2013.

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QUARTERLY REPORT ON FORM 10-Q

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

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

	Quarters Ended March 31,	
	2013	2012
Revenues	<b>\$713,633</b>	\$633,512
Cost of sales	<b>538,187</b>	482,890
Gross profit	<b>175,446</b>	150,622
Selling, general and administrative expenses	<b>144,892</b>	130,713
Operating income	<b>30,554</b>	19,909
Interest expense, net	<b>1,182</b>	888
Income before income taxes	<b>29,372</b>	19,021
Income taxes	<b>8,283</b>	5,529
Net income	<b>21,089</b>	13,492
Less: net income attributable to noncontrolling interest	<b>7,704</b>	5,026
Net income attributable to Watsco, Inc.	<b>\$ 13,385</b>	<b>\$ 8,466</b>
Earnings per share for Common and Class B common stock:		
Basic	<b>\$ 0.39</b>	\$ 0.23
Diluted	<b>\$ 0.39</b>	\$ 0.23

See accompanying notes to condensed consolidated unaudited financial statements.

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

	Quarters Ended	
	March 31,	
	2013	2012
Net income	<b>\$21,089</b>	\$13,492
Other comprehensive (loss) income, net of tax		
Foreign currency translation adjustment	<b>(2,885)</b>	—
Unrealized gain on available-for-sale securities arising during the period	<b>8</b>	16
Other comprehensive (loss) income	<b>(2,877)</b>	16
Comprehensive income	<b>18,212</b>	13,508
Less: comprehensive income attributable to noncontrolling interest	<b>5,526</b>	5,026
Comprehensive income attributable to Watsco, Inc.	<b><u>\$12,686</u></b>	<b><u>\$ 8,482</u></b>

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

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

	March 31, 2013 (Unaudited)	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22,033	\$ 73,770
Accounts receivable, net	380,917	377,655
Inventories	647,078	546,083
Other current assets	16,872	17,943
Total current assets	1,066,900	1,015,451
Property and equipment, net	42,997	42,842
Goodwill	395,737	397,262
Intangible assets, net	214,878	219,501
Other assets	6,771	6,999
	<u>\$ 1,727,283</u>	<u>\$1,682,055</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term obligations	\$ 4	\$ 4
Accounts payable	217,917	184,957
Accrued expenses and other current liabilities	91,719	97,397
Total current liabilities	309,640	282,358
Long-term obligations:		
Borrowings under revolving credit agreement	322,004	316,182
Other long-term obligations, net of current portion	13	14
Total long-term obligations	322,017	316,196
Deferred income taxes and other liabilities	61,465	61,461
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, \$0.50 par value	18,147	18,131
Class B common stock, \$0.50 par value	2,355	2,315
Preferred stock, \$0.50 par value	—	—
Paid-in capital	597,491	592,820
Accumulated other comprehensive loss, net of tax	(4,979)	(2,102)
Retained earnings	256,220	251,475
Treasury stock, at cost	(114,425)	(114,425)
Total Watsco, Inc. shareholders' equity	754,809	748,214
Noncontrolling interest	279,352	273,826
Total shareholders' equity	<u>1,034,161</u>	<u>1,022,040</u>
	<u>\$ 1,727,283</u>	<u>\$1,682,055</u>

See accompanying notes to condensed consolidated unaudited financial statements.

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

	Quarters Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 21,089	\$ 13,492
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,300	3,081
Share-based compensation	2,298	2,162
Non-cash contribution for 401(k) plan	1,689	1,772
Provision for doubtful accounts	1,160	520
Excess tax benefits from share-based compensation	(50)	(148)
Other, net	769	424
Changes in operating assets and liabilities:		
Accounts receivable	(5,379)	(12,234)
Inventories	(102,122)	(67,083)
Accounts payable and other liabilities	57,522	68,067
Other, net	1,225	(600)
Net cash (used in) provided by operating activities	<u>(17,499)</u>	<u>9,453</u>
Cash flows from investing activities:		
Capital expenditures	(3,069)	(3,883)
Proceeds from sale of property and equipment	110	71
Net cash used in investing activities	<u>(2,959)</u>	<u>(3,812)</u>
Cash flows from financing activities:		
Distributions to noncontrolling interest	(29,637)	(6,630)
Dividends on Common and Class B common stock	(8,640)	(20,470)
Net (repayments of) proceeds from long-term obligations	(1)	14
Excess tax benefits from share-based compensation	50	148
Net proceeds from issuances of common stock	497	1,181
Net proceeds under current revolving credit agreement	6,651	—
Net proceeds under prior revolving credit agreements	—	22,500
Net cash used in financing activities	<u>(31,080)</u>	<u>(3,257)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(199)</u>	<u>—</u>
Net (decrease) increase in cash and cash equivalents	<u>(51,737)</u>	<u>2,384</u>
Cash and cash equivalents at beginning of period	<u>73,770</u>	<u>15,673</u>
Cash and cash equivalents at end of period	<u>\$ 22,033</u>	<u>\$ 18,057</u>

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS  
March 31, 2013

(In thousands, except share and per share data)

## 1. BASIS OF PRESENTATION

### Basis of Consolidation

Watsco, Inc. and its subsidiaries (collectively, "Watsco," which may be referred to as *we*, *us* or *our*) was incorporated in 1956 in Florida and is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry. The accompanying Watsco March 31, 2013 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, although 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 herein. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in our 2012 Annual Report on Form 10-K.

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

The results of operations for the quarter ended March 31, 2013 are not necessarily indicative of the results to be expected for the year ending December 31, 2013. Sales of residential central air conditioners, heating equipment and parts and supplies are seasonal. Furthermore, results of operations can be impacted favorably or unfavorably based on weather patterns during 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 is fairly consistent during the year, except for dependence 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, inventories and income taxes, reserves related to self-insurance programs and the valuation of goodwill and indefinite lived intangible assets. While we believe that these estimates are reasonable, actual results could differ from such estimates.

### New Accounting Standards

#### *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*

In February 2013, the Financial Accounting Standards Board amended guidance that requires disclosure for amounts reclassified out of accumulated other comprehensive income ("AOCI") by component. The amendments require the presentation of amounts reclassified out of AOCI by the respective line items of net income if the amount reclassified is required to be reclassified to net income in its entirety in the reporting period. For amounts that are not required to be reclassified in their entirety to net income, a cross-reference to other disclosures that provide additional detail about those amounts is required. This guidance is effective prospectively for interim and annual reporting periods beginning after December 15, 2012. The adoption of this guidance did not have an impact on our condensed consolidated unaudited financial statements.

## 2. EARNINGS PER SHARE

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

<i>Quarters Ended March 31,</i>	2013	2012
<b>Basic Earnings per Share:</b>		
Net income attributable to Watsco, Inc. shareholders	\$ 13,385	\$ 8,466
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	937	1,408
Earnings allocated to Watsco, Inc. shareholders	\$ 12,448	\$ 7,058
Weighted-average Common and Class B common shares outstanding for basic earnings per share	32,157,729	30,756,626
Basic earnings per share for Common and Class B common stock	\$ 0.39	\$ 0.23
Allocation of earnings for Basic:		
Common stock	\$ 11,401	\$ 6,405
Class B common stock	1,047	653
	\$ 12,448	\$ 7,058
<b>Diluted Earnings per Share:</b>		
Net income attributable to Watsco, Inc. shareholders	\$ 13,385	\$ 8,466
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	937	1,408
Earnings allocated to Watsco, Inc. shareholders	\$ 12,448	\$ 7,058
Weighted-average Common and Class B common shares outstanding for basic earnings per share	32,157,729	30,756,626
Effect of dilutive stock options	55,711	77,842
Weighted-average Common and Class B common shares outstanding for diluted earnings per share	32,213,440	30,834,468
Diluted earnings per share for Common and Class B common stock	\$ 0.39	\$ 0.23

Diluted earnings per share for our Common stock assumes the conversion of all of our Class B common stock into Common stock as of the beginning of the fiscal year and adjusts for the dilutive effects of outstanding stock options using the treasury stock method; therefore, no allocation of earnings to Class B common stock is required. As of March 31, 2013 and 2012, our outstanding Class B common stock was convertible into 2,705,465 and 2,846,334 shares of our Common stock, respectively.

No shares were excluded from diluted earnings per share for either the quarter ended March 31, 2013 or 2012.

## 3. OTHER COMPREHENSIVE (LOSS) INCOME

Other comprehensive (loss) income consists of the currency translation adjustment associated with our Canadian operations' use of the Canadian dollar as their functional currency and changes in the unrealized gain on available-for-sale securities. The tax effects allocated to each component of other comprehensive (loss) income are as follows:

<i>Quarters Ended March 31,</i>	2013	2012
Foreign currency translation adjustment	\$ (2,885)	\$ —
Unrealized gain on available-for-sale securities	14	25
Income tax expense	(6)	(9)
Unrealized gain on available-for-sale securities, net of tax	8	16
Other comprehensive (loss) income	\$ (2,877)	\$ 16



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

<u>Quarters Ended March 31,</u>	<u>2013</u>	<u>2012</u>
<b>Foreign currency translation adjustment:</b>		
Beginning balance	\$(1,785)	\$ —
Current period other comprehensive loss	(2,885)	—
Ending balance	(4,670)	—
<b>Available-for-sale securities:</b>		
Beginning balance	(317)	(352)
Current period other comprehensive income	8	16
Ending balance	(309)	(336)
<b>Accumulated other comprehensive loss, net of tax</b>	<b><u>\$(4,979)</u></b>	<b><u>\$(336)</u></b>

#### 4. DERIVATIVE FINANCIAL INSTRUMENTS

We routinely use certain derivative instruments to hedge foreign currency exposure. Although these derivatives were not designated as hedges and/or did not qualify for hedge accounting, they were effective economic hedges. The changes in fair value of economic hedges are recognized in earnings. During 2012, we entered into foreign currency forward contracts to offset the earnings impact that foreign currency exchange rate fluctuations would otherwise have on certain monetary liabilities that are denominated in nonfunctional currencies. The change in fair value of these foreign currency forward contracts was \$21 for the quarter ended March 31, 2013, and is included in selling, general and administrative expenses in our condensed consolidated unaudited statement of income. The total notional value of our foreign currency exchange contracts as of March 31, 2013 was \$31,690, and such contracts have varying terms expiring through June 2013. See Note 5.

#### 5. FAIR VALUE MEASUREMENTS

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

<b>Description</b>	Fair Value at March 31, 2013	Fair Value Measurements at March 31, 2013 Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale securities	\$ 240	\$240	—	—
<b>Liabilities:</b>				
Derivative financial instruments	\$ 176	—	\$176	—
<b>Description</b>	Fair Value at December 31, 2012	Fair Value Measurements at December 31, 2012 Using		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Available-for-sale securities	\$ 226	\$226	—	—
<b>Liabilities:</b>				
Derivative financial instruments	\$ 197	—	\$197	—

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

*Available-for-sale securities* – the investments are exchange-traded equity securities. Fair values for these investments are based on closing stock prices from active markets and are therefore classified within Level 1 of the fair value hierarchy. The fair value of available-for-sale securities is included in other assets in our condensed consolidated balance sheets.

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

The fair value of the derivative financial instruments is included in accrued expenses and other current liabilities in our condensed consolidated balance sheet.

There were no transfers in or out of Level 1 and Level 2 during the quarter ended March 31, 2013.

## 6. ACQUISITIONS

### Carrier Enterprise I

Carrier Enterprise, LLC (“Carrier Enterprise I”) is a joint venture formed on July 1, 2009 with Carrier that operates a network of locations primarily throughout the U.S. Sun Belt. From its inception until July 2, 2012, we owned 60% of the joint venture and Carrier owned 40%. We had an option to purchase an additional 10% ownership interest in Carrier Enterprise I, which became exercisable on July 1, 2012. On July 2, 2012, we exercised this option and acquired an additional 10% ownership interest in Carrier Enterprise I for cash consideration of \$51,881. We have a second option to purchase an additional 10% interest in Carrier Enterprise I, which becomes exercisable beginning on July 1, 2014.

### Carrier Enterprise II

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

### Carrier Enterprise III

In April 2012, we formed a joint venture, Carrier Enterprise Canada, L.P. (“Carrier Enterprise III”), with UTC Canada Corporation (“UTC Canada”), an affiliate of Carrier, to distribute Carrier, Bryant and Payne branded residential, light-commercial and commercial applied HVAC products in Canada. We have a 60% controlling interest in Carrier Enterprise III, and Carrier has a 40% noncontrolling interest. Neither we nor UTC Canada have any options to purchase additional ownership interests in Carrier Enterprise III.

The unaudited pro forma financial information, combining our results of operations with the operations of Carrier Enterprise III as if the joint venture had been consummated on January 1, 2012, is as follows:

<u>Quarter ended March 31,</u>	<u>2012</u>
Revenues	\$703,977
Net income	13,106
Less: net income attributable to noncontrolling interest	4,850
Net income attributable to Watsco, Inc.	\$ 8,256
Diluted earnings per share for Common and Class B common stock	\$ 0.21

This unaudited pro forma financial information is presented for informational purposes only. The unaudited pro forma financial information for the period presented includes adjustments to record income taxes related to our portion of Carrier Enterprise III’s income, amortization related to identified intangible assets with finite lives and interest expense on borrowings incurred to acquire our 60% controlling interest. This unaudited pro forma financial information does not include adjustments to add or remove certain corporate expenses of Carrier Enterprise III, which may or may not be incurred in future periods, or adjustments for depreciation or synergies that may be realized subsequent to the acquisition date. This unaudited pro forma financial information does not necessarily reflect our future results of operations or what the results of operations would have been had we acquired our 60% controlling interest in and operated Carrier Enterprise III as of the beginning of the period presented.

## 7. SHAREHOLDERS’ EQUITY

### Common Stock Dividends

We paid cash dividends of \$0.25 and \$0.62 per share of Common stock and Class B common stock during the quarters ended March 31, 2013 and 2012, respectively.

### Non-Vested (Restricted) Stock

During the quarters ended March 31, 2013 and 2012, we granted 90,543 and 58,301 shares of non-vested (restricted) stock, respectively.

## Stock Options

During the quarters ended March 31, 2013 and 2012, 7,000 and 21,500, respectively, of stock options were exercised for Common stock. Cash received from Common stock issued upon the exercise of stock options during the quarters ended March 31, 2013 and 2012, was \$338 and \$987, respectively.

## Employee Stock Purchase Plan

During the quarters ended March 31, 2013 and 2012, 2,182 and 2,962 shares of Common stock were issued under our employee stock purchase plan, respectively, for which we received net proceeds of \$159 and \$194, respectively.

## 401(k) Plan

During the quarters ended March 31, 2013 and 2012, 22,551 and 26,991 shares of Common stock were issued to our profit sharing retirement plan, respectively, representing discretionary matching contribution of \$1,689 and \$1,772, respectively.

## Noncontrolling Interest

We have a 60% controlling interest in both Carrier Enterprise II and Carrier Enterprise III, and Carrier has a 40% noncontrolling interest in each. Effective July 2, 2012, our controlling interest in Carrier Enterprise I increased to 70% from 60%, following our exercise of the option described in Note 6. The following table reconciles shareholders' equity attributable to Carrier's noncontrolling interest:

Noncontrolling interest at December 31, 2012	\$ 273,826
Net income attributable to noncontrolling interest	7,704
Foreign currency translation adjustment	(2,178)
Noncontrolling interest at March 31, 2013	<u>\$ 279,352</u>

## 8. 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. The estimation process contains uncertainty since management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. Reserves in the amounts of \$5,308 and \$4,844 at March 31, 2013 and December 31, 2012, respectively, were established related to such insurance programs and are included in accrued expenses and other current liabilities in our condensed consolidated balance sheets.

## 9. RELATED PARTY TRANSACTIONS

Purchases from Carrier and its affiliates comprised 55% and 52% of all purchases made during the quarters ended March 31, 2013 and 2012, respectively. At March 31, 2013 and December 31, 2012, approximately \$126,000 and \$62,000, respectively, was payable to Carrier and its affiliates, net of receivables. Our joint ventures with Carrier also sell HVAC products to Carrier and its affiliates. Revenues in our condensed consolidated unaudited statements of income for the quarters ended March 31, 2013 and 2012 include \$5,295 and \$6,784, respectively, of sales to Carrier and its affiliates. We believe these transactions are conducted at arm's-length in the ordinary course of business.

Carrier Enterprise II entered into Transactional Services Agreements ("TSAs") with Carrier, pursuant to which Carrier performed certain business processes on its behalf, including processes involving the use of certain information technologies. The services

provided by Carrier pursuant to the TSAs terminated on April 30, 2012. The fees related to these TSAs were \$584 for the quarter ended March 31, 2012 and are included in selling, general and administrative expenses in our condensed consolidated unaudited statement of income. At December 31, 2012, \$25 related to these TSAs was payable to Carrier and was included in accrued expenses and other current liabilities in our condensed consolidated unaudited balance sheet.

Carrier Enterprise III entered into TSAs with UTC Canada, pursuant to which UTC Canada performs certain business processes on behalf of Carrier Enterprise III, including processes involving the use of certain information technologies, and UTC Canada entered into TSAs with Carrier Enterprise III, pursuant to which Carrier Enterprise III performs certain business processes on behalf of UTC Canada. The services provided pursuant to the TSAs terminate on various dates but may be extended as agreed upon by the parties. The fees payable by Carrier Enterprise III to UTC Canada under one TSA were substantially offset by the fees payable to Carrier Enterprise III by UTC Canada under the other TSA.

At December 31, 2012, \$29,637 was payable to Carrier and UTC Canada for unpaid distributions declared to the noncontrolling interest. This amount was paid to Carrier and UTC Canada in February 2013.

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

### **Forward-Looking Statements**

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

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

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

In light of these uncertainties, there can be no assurance that the forward-looking information contained herein will be realized or, even if realized, in whole or in part, that the information will have the expected consequences to, or effects on, our business or operations. For additional information identifying other important factors that may affect our operations and could cause actual results to vary materially from those anticipated in the forward-looking statements, see our SEC filings, including but not limited to, the discussion included in Item 1A "Risk Factors" of our 2012 Annual Report on Form 10-K. Forward-looking statements speak only as of the date the statement was made. We assume no obligation to update forward-looking information or the discussion of such risks and uncertainties to reflect actual results, changes in assumptions or changes in other factors affecting forward-looking information, except as required by applicable law.

The following information should be read in conjunction with the condensed consolidated unaudited financial statements and notes thereto included under Item 1 of this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited consolidated financial statements and notes thereto and related Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2012 Annual Report on Form 10-K.

### **Company Overview**

Watsco, Inc. and its subsidiaries (collectively, "Watsco," or *we, us or our*) was incorporated in Florida in 1956 and is the largest distributor of air conditioning, heating and refrigeration equipment and related parts and supplies ("HVAC/R") in the HVAC/R distribution industry. At March 31, 2013, we operated from 574 locations in 38 U.S. states, Canada, Mexico and Puerto Rico with additional market coverage on an export basis to Latin America and the Caribbean.

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

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

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

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

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

In April 2012, we formed a third joint venture, which we refer to as Carrier Enterprise III, with UTC Canada Corporation, referred to as UTC Canada, an affiliate of Carrier. Carrier contributed 35 of its company-owned locations in Canada to Carrier Enterprise III. We have a 60% controlling interest in Carrier Enterprise III, and UTC Canada has a 40% noncontrolling interest. Neither we nor UTC Canada have any options to purchase additional ownership interests in Carrier Enterprise III.

### **Critical Accounting Policies**

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

Our critical accounting policies are included in our 2012 Annual Report on Form 10-K as filed on February 28, 2013. We believe that there have been no significant changes during the quarter ended March 31, 2013 to the critical accounting policies disclosed in our 2012 Annual Report on Form 10-K.

### **Recent Accounting Pronouncements**

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

## Results of Operations

The following table summarizes information derived from the condensed consolidated unaudited statements of income expressed as a percentage of revenues for the quarters ended March 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Revenues	<b>100.0%</b>	100.0%
Cost of sales	<b>75.4</b>	76.2
Gross profit	<b>24.6</b>	23.8
Selling, general and administrative expenses	<b>20.3</b>	20.6
Operating income	<b>4.3</b>	3.2
Interest expense, net	<b>0.2</b>	0.2
Income before income taxes	<b>4.1</b>	3.0
Income taxes	<b>1.1</b>	0.9
Net income	<b>3.0</b>	2.1
Less: net income attributable to noncontrolling interest	<b>1.1</b>	0.8
Net income attributable to Watsco, Inc.	<b>1.9%</b>	1.3%

The following narratives include the results of operations for businesses acquired during 2012. The results of operations for these acquisitions have been included in our condensed consolidated unaudited statements of income beginning on their respective dates of acquisition. See Note 6 to our condensed consolidated unaudited financial statements included in this Quarterly Report on Form 10-Q for the pro forma financial information combining our results of operations with the operations of Carrier Enterprise III. The following narratives also reflect our acquisition of an additional 10% ownership interest in Carrier Enterprise I effective July 2, 2012. There were no businesses acquired during the first quarter of 2013.

In the following narratives, computations and disclosure information referring to “same-store basis” exclude the effects of locations acquired or locations opened or closed during the immediately preceding 12 months unless they are within close geographical proximity to existing locations. At March 31, 2013 and 2012, 61 and 65 locations, respectively, were excluded from “same-store basis” information. The table below summarizes the changes in our locations for the 12 months ended March 31, 2013:

	<u>Number of Locations</u>
March 31, 2012	541
Acquired	35
Opened	10
Closed	(13)
December 31, 2012	573
Opened	2
Closed	(1)
March 31, 2013	<u>574</u>

### Revenues

Revenues for the first quarter of 2013 increased \$80.1 million, or 13%, compared to the first quarter of 2012, including \$62.5 million attributable to the 35 new Carrier Enterprise III locations acquired in 2012 and \$0.6 million from other locations opened during the preceding 12 months, partially offset by \$1.0 million from locations closed. On a same-store basis, revenues increased \$18.0 million, or 3%, as compared to the same period in 2012, reflecting a 3% increase in sales of HVAC equipment (6% increase in residential HVAC equipment offset by a 5% decrease in commercial HVAC equipment), a 1% increase in sales of other HVAC products and a 7% increase in sales of commercial refrigeration products. Sales of residential HVAC equipment benefited from an improved sales mix of higher-efficiency air conditioning and heating systems, which sell at higher unit prices.

### Gross Profit

Gross profit for the quarter ended March 31, 2013 increased \$24.8 million, or 16%, compared to the same period in 2012, primarily as a result of increased revenues. Gross profit margin for the quarter ended March 31, 2013 improved 80 basis-points to 24.6% versus 23.8% for the same period in 2012, primarily due to increased average selling prices for residential HVAC equipment, higher margins on a better sales mix of higher-efficiency air conditioning and heating systems and reflecting higher gross margins achieved by Carrier Enterprise III.

### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses for the first quarter of 2013 increased \$14.2 million, or 11%, compared to the first quarter of 2012 primarily due to increased revenues. Selling, general and administrative expenses as a percent of revenues for the quarter ended March 31, 2013 decreased to 20.3% versus 20.6% for the same period in 2012. The decrease in selling, general, and administrative expenses as a percentage of revenues was primarily due to leveraging of fixed operating costs as compared to 2012. On a same-store basis, selling, general and administrative expenses were flat as compared to the same period in 2012.

### *Interest Expense, Net*

Net interest expense for the quarter ended March 31, 2013 increased \$0.3 million, or 33%, compared to the same period in 2012, primarily as a result of an increase in average outstanding borrowings, partially offset by a lower effective interest rate in 2013 as compared to 2012.

### *Income Taxes*

Income taxes increased to \$8.3 million for the first quarter of 2013 as compared to \$5.5 million for the first quarter of 2012 and are a composite of the income taxes attributable to our wholly owned operations and investments, and income taxes attributable to the Carrier joint ventures, which are taxed as partnerships for income tax purposes. The effective income tax rate attributable to us was 36.75% and 37.5% for the quarters ended March 31, 2013 and 2012, respectively. The decrease was primarily due to lower effective tax rates for income generated by our foreign subsidiaries.

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

Net income attributable to Watsco for the quarter ended March 31, 2013 increased \$4.9 million, or 58%, compared to the same period in 2012. The increase was primarily driven by higher revenues, expanded profit margins and reduced selling, general and administrative expenses as a percent of revenues, as discussed above, and by our acquisition of an additional 10% ownership interest in Carrier Enterprise I in July 2012.

### **Liquidity and Capital Resources**

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

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

### Sources and Uses of Cash

We rely on cash flows from operations and borrowing capacity (subject to certain restrictions) under our revolving credit agreement to fund seasonal working capital needs and for other general corporate purposes, including anticipated dividend payments, capital expenditures, business acquisitions and supporting the development of our long-term operating strategies.

We believe that our operating cash flows, cash on hand and funds available for borrowing under our line of credit will be sufficient to satisfy 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.

Any future disruption in the capital and credit markets, such as those experienced in 2008 and 2009, could adversely affect our ability to draw on our line of credit. Our access to funds under the line of credit is dependent on the ability of the syndicate banks to meet their respective funding commitments. Disruptions in capital and credit markets also may affect the determination of interest rates for borrowers, particularly rates based on LIBOR, such as the rates under our line of credit. Any future disruptions in these markets and their effect on interest rates could result in increased borrowing costs and/or reduced borrowing capacity under our line of credit.

### Working Capital

Working capital increased to \$757.3 million at March 31, 2013 from \$733.1 million at December 31, 2012.

## Cash Flows

The following table summarizes our cash flow activity for the quarters ended March 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>	<u>Change</u>
Cash flows (used in) provided by operating activities	<b>\$ (17.5)</b>	\$ 9.5	<b>\$ (27.0)</b>
Cash flows used in investing activities	<b>\$ (3.0)</b>	\$(3.8)	\$ 0.8
Cash flows used in financing activities	<b>\$ (31.1)</b>	\$(3.3)	<b>\$ (27.8)</b>

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

### Operating Activities

The increase in net cash used in operating activities is primarily due to a stronger seasonal buildup of inventory in 2013 in preparation for the spring and summer selling seasons partially offset by higher net income in 2013.

### Investing Activities

The decrease in net cash used in investing activities is due to lower capital expenditures in 2013.

### Financing Activities

The increase in net cash used in financing activities was primarily attributable to an increase in distributions to the noncontrolling interest, partially offset by lower net borrowings under our revolving credit agreement and a decrease in dividends paid in 2013.

### Revolving Credit Agreement

We maintain an unsecured, syndicated revolving credit agreement that provides for borrowings of up to \$500.0 million. Borrowings are used to fund seasonal working capital needs and for other general corporate purposes, including acquisitions, dividends, stock repurchases and issuances of letters of credit. The credit agreement matures in April 2017. At March 31, 2013 and December 31, 2012, \$322.0 million and \$316.2 million were outstanding under the revolving credit agreement, respectively. The revolving credit agreement contains customary affirmative and negative covenants, including financial covenants with respect to consolidated leverage and interest coverage ratios, and other customary restrictions. We believe we were in compliance with all covenants at March 31, 2013.

### Acquisitions

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

### Common Stock Dividends

We paid cash dividends of \$0.25 per share and \$0.62 per share of Common stock and Class B common stock during the quarters ended March 31, 2013 and 2012, respectively. On April 1, 2013, our Board of Directors declared a regular quarterly cash dividend of \$0.25 per share of Common stock and Class B common stock that was paid on April 30, 2013 to shareholders of record as of April 15, 2013. Future dividends and/or dividend rate increases will be at the sole discretion of the Board of Directors and will depend upon such factors as cash flow generated by operations, profitability, financial condition, cash requirements, future prospects and other factors deemed relevant by our Board of Directors.

### Company Share Repurchase Program

In September 1999, our Board of Directors authorized the repurchase, at management's discretion, of up to 7,500,000 shares of common stock in the open market or via private transactions. Shares repurchased under the program are accounted for using the cost method and result in a reduction of shareholders' equity. No shares were repurchased during the quarters ended March 31, 2013 or 2012. In aggregate, 6,370,913 shares of Common and Class B common stock have been repurchased at a cost of \$114.4 million since the inception of the program. At March 31, 2013, there were 1,129,087 shares remaining authorized for repurchase under the program.

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

There have been no material changes in market risk from the information provided in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of the 2012 Annual Report on Form 10-K.



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

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

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

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

### **Changes in Internal Control over Financial Reporting**

We are continuously seeking to improve the efficiency and effectiveness of our operations and of our internal controls. This results in refinements to processes throughout the Company. However, there have been no changes in internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In accordance with the rules and regulations of the SEC, we have not yet assessed the internal control over financial reporting of the 35 locations added by Carrier Enterprise III on April 27, 2012, which represents approximately 18% of our consolidated assets at March 31, 2013 and approximately 9% of our consolidated revenues for the three months ended March 31, 2013. From the acquisition date to March 31, 2013, the processes and systems of Carrier Enterprise III 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 8 to our condensed consolidated unaudited financial statements contained in this Quarterly Report on Form 10-Q under the caption “Litigation, Claims and Assessments,” which information is incorporated by reference in this Item 1 of Part II of this Quarterly Report on Form 10-Q.

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

Information about risk factors for the quarter ended March 31, 2013 does not differ materially from that set forth in Part I, Item 1A, of our 2012 Annual Report on Form 10-K.

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

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

On March 14, 2013, we issued 22,551 shares of our Common stock to our Profit Sharing Retirement Plan & Trusts (the “Plans”) representing the employer match under the Plans for the plan year ended December 31, 2012, without registration. This issuance was exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(2) thereof. The Plans are profit sharing retirement plans that are qualified under Section 401 of the Internal Revenue Code of 1986, as amended. The assets of the Plans are held in a single trust fund for the benefit of our employees, and no Plan holds assets for the benefit of the employees of any other employer. All of the contributions to the Plans from our employees have been invested in assets other than our Common stock. We have contributed all of the Common stock held by the Plans as a discretionary matching contribution, which, at the time of contribution, was lower in value than the employee contributions that the contribution matched.

**ITEM 6. EXHIBITS**

- 10.1 # Fourteenth Amendment dated January 1, 2013 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad.
- 31.1 # Certification of Chief Executive Officer pursuant to Securities Exchange Act Rules 13a- 15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 # Certification of Senior Vice President pursuant to Securities Exchange Act Rules 13a-15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.3 # Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a- 15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 + Certification of Chief Executive Officer, Senior Vice President and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.
- 101.INS # XBRL Instance Document.
- 101.SCH # XBRL Taxonomy Extension Schema Document.
- 101.CAL # XBRL Taxonomy Extension Calculation Linkbase Document.
- 101.DEF # XBRL Taxonomy Extension Definition Linkbase Document.
- 101.LAB # XBRL Taxonomy Extension Label Linkbase Document.
- 101.PRE # XBRL Taxonomy Extension Presentation Linkbase Document.

# filed herewith.

+ furnished herewith.

**SIGNATURE**

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

WATSCO, INC.  
(Registrant)

Date: April 30, 2013

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

## INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Exhibit Description</u>
10.1 #	Fourteenth Amendment dated January 1, 2013 to Employment Agreement and Incentive Plan dated January 31, 1996 by and between Watsco, Inc. and Albert H. Nahmad.
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.
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31.3 #	Certification of Chief Financial Officer pursuant to Securities Exchange Act Rules 13a- 15(e) and 15d-15(e) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
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101.PRE #	XBRL Taxonomy Extension Presentation Linkbase Document.

# filed herewith.

+ furnished herewith.

**FOURTEENTH AMENDMENT  
TO  
EMPLOYMENT AGREEMENT**

This Fourteenth Amendment to Employment Agreement is made and entered into on this 1st day of January, 2013, by and between **WATSCO, INC.**, a Florida corporation (hereinafter called the “Company”), and **ALBERT H. NAHMAD** (hereinafter called the “Employee”).

**RECITALS**

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

**WHEREAS**, the Compensation Committee of the Company’s Board of Directors amended the Employment Agreement effective as of January 1, 2001, January 1, 2002, January 1, 2003, January 1, 2004, January 1, 2005, January 1, 2006, January 1, 2007, January 1, 2008, December 10, 2008, January 1, 2009 January 1, 2010, January 1, 2011 and January 1, 2012; and

**WHEREAS**, the Compensation Committee of the Company’s Board of Directors has set the targets for the performance based compensation payable by the Company to the Employee for the year 2013; and

**WHEREAS**, the Company and the Employee now desire to amend the Employment Agreement and Exhibit A-1 to the Employment Agreement to specify the performance based compensation amount payable by the Company to the Employee for the calendar year 2013.

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

1. All capitalized terms in this Fourteenth Amendment shall have the same meaning as in the Employment Agreement, unless otherwise specified.
2. The Employment Agreement is hereby amended by replacing “Exhibit A-1 — 2012 Performance Goals and Performance Based Compensation” with the attached “Exhibit A-1 — 2013 Performance Goals and Performance Based Compensation” thereto.
3. All other terms and conditions of the Employment Agreement shall remain the same.

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

**COMPANY:**

WATSCO, INC.

By: /s/ Barry S. Logan

Barry S. Logan, Senior Vice President

**EMPLOYEE:**

/s/ Albert H. Nahmad

Albert H. Nahmad

EXHIBIT A-1

2013 Performance Goals and Performance Based Compensation

I. Formula

A. Earnings Per Share

For each \$.01 increase

Performance  
Based  
Compensation Amount

\$ 65,250

B. Increase in Common Stock Price

(i) If the closing price of a share of Common Stock on 12/31/13 does not exceed \$74.90

\$ 0

(ii) If the closing price of a share of Common Stock on 12/31/13 exceeds \$74.90 but does not equal or exceed \$86.00, for each \$0.01 increase in per share price of a share of Common Stock above \$74.90

\$ 1,200

(iii) If the closing price of a share of Common Stock on 12/31/13 equals or exceeds \$86.00, for each \$0.01 increase in per share price of a share of Common Stock above \$74.90

\$ 1,800

II. Method of Payment

The Performance Based Compensation determined for 2013 under the formula in Section I (the "Performance Based Compensation Amount") shall be paid in the form of the Company's grant of a number of shares of Class B Common Stock of the Company (the "Shares") equal to the amount determined by dividing (x) two times the Performance Based Compensation Amount by (y) the closing price for the Class B Common Stock of the Company on the New York Stock Exchange as of the close of trading on December 31, 2013. The value of any fractional shares shall be paid in cash. The Compensation Committee may, in its sole discretion, exercise negative discretion to reduce the Performance Based Compensation Amount by any amount and instead pay the amount by which the Performance Based Compensation Amount has been reduced in cash on a 1 for 1 basis, rather than converting that amount into Shares on a 2 for 1 basis as described above. The restrictions on the Shares shall lapse on the first to occur of (i) October 15, 2022 (ii) termination of the Executive's employment with the Company by reason of Executive's disability or death, (iii) the Executive's termination of employment with the Company for Good Reason; (iv) the Company's termination of Executive's employment without Cause, or (v) the occurrence of a Change in Control of the Company ("Good Reason", "Cause", and "Change in Control" to be defined in a manner consistent with the most recent grant of Restricted Stock by the Company to the Executive).

III. 2001 Amended and Restated Incentive Compensation Plan

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

Dated: Effective as of January 1, 2013

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

Acknowledged and Accepted:

/s/ Albert H. Nahmad  
Albert H. Nahmad

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

I, Albert H. Nahmad, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Watsco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2013

/s/ Albert H. Nahmad

Albert H. Nahmad  
Chief Executive Officer



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

I, Barry S. Logan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Watsco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2013

/s/ Barry S. Logan

Barry S. Logan

Senior Vice President

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

I, Ana M. Menendez, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Watsco, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 30, 2013

/s/ Ana M. Menendez

Ana M. Menendez

Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Watsco, Inc. ("Watsco") for the quarter ended March 31, 2013, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Albert H. Nahmad, as Chief Executive Officer of Watsco, Barry S. Logan, as Senior Vice President of Watsco and Ana M. Menendez, as Chief Financial Officer of Watsco, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

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

/s/ Albert H. Nahmad

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Albert H. Nahmad  
Chief Executive Officer  
April 30, 2013

/s/ Barry S. Logan

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Barry S. Logan  
Senior Vice President  
April 30, 2013

/s/ Ana M. Menendez

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Ana M. Menendez  
Chief Financial Officer  
April 30, 2013

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.