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, 2012

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

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	☐ (Do not check if a smaller reporting company)	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: 29,774,883 shares of Common stock ($0.50 par value), excluding treasury shares of 6,322,650 and 4,717,653 shares of Class B common stock ($0.50 par value), excluding treasury shares of 48,263, were outstanding as of November 2, 2012.

WATSCO, INC. AND SUBSIDIARIES

QUARTERLY REPORT ON FORM 10-Q

TABLE OF CONTENTS

Table of Contents

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,	
	2012	2011	2012	2011
Revenues	**$1,020,859**	$914,039	**$2,666,172**	$2,331,926
Cost of sales	**778,354**	694,632	**2,034,570**	1,764,342
Gross profit	**242,505**	219,407	**631,602**	567,584
Selling, general and administrative expenses	**156,808**	145,096	**440,125**	401,034
Operating income	**85,697**	74,311	**191,477**	166,550
Interest expense, net	**1,185**	1,352	**3,423**	3,171
Income before income taxes	**84,512**	72,959	**188,054**	163,379
Income taxes	**24,981**	21,141	**54,129**	48,167
Net income	**59,531**	51,818	**133,925**	115,212
Less: net income attributable to noncontrolling interest	**18,526**	18,271	**45,350**	38,142
Net income attributable to Watsco, Inc.	**$ 41,005**	$ 33,547	**$ 88,575**	$ 77,070
Earnings per share for Common and Class B common stock:				
Basic	**$ 1.19**	$ 1.02	**$ 2.62**	$ 2.35
Diluted	**$ 1.19**	$ 1.02	**$ 2.61**	$ 2.34

See accompanying notes to condensed consolidated unaudited financial statements.

Table of Contents

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income	**$59,531**	$51,818	**$133,925**	$115,212
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment	**4,731**	—	**(109)**	—
Unrealized gain (loss) on available-for-sale securities arising during the period	**15**	(23)	**27**	(20)
Unrealized gain on derivative instrument arising during the period	—	77	—	221
Other comprehensive income (loss)	**4,746**	54	**(82)**	201
Comprehensive income	**64,277**	51,872	**133,843**	115,413
Less: comprehensive income attributable to noncontrolling interest	**18,526**	18,271	**45,350**	38,142
Comprehensive income attributable to Watsco, Inc.	**$45,751**	$33,601	**$ 88,493**	$ 77,271

See accompanying notes to condensed consolidated unaudited financial statements.

Table of Contents

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

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 45,961**	$ 15,673
Accounts receivable, net	**455,674**	327,664
Inventories	**618,077**	465,349
Other current assets	**21,258**	19,491
Total current assets	**1,140,970**	828,177
Property and equipment, net	**42,715**	39,455
Goodwill	**385,826**	319,440
Intangible assets, net	**223,157**	75,366
Other assets	**7,149**	5,710
	$1,799,817	$1,268,148
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	**$ 219,563**	$ 127,359
Accrued expenses and other current liabilities	**108,634**	75,661
Current portion of other long-term obligations	**7**	19
Borrowings under revolving credit agreement	**—**	20,000
Total current liabilities	**328,204**	223,039
Long-term obligations:		
Borrowings under revolving credit agreement	**202,180**	—
Other long-term obligations, net of current portion	**14**	—
Total long-term obligations	**202,194**	—
Deferred income taxes and other liabilities	**48,096**	43,399
Commitments and contingencies		
Watsco, Inc. shareholders' equity:		
Common stock, $0.50 par value	**18,047**	17,338
Class B common stock, $0.50 par value	**2,383**	2,350
Preferred stock, $0.50 par value	**—**	—
Paid-in capital	**589,347**	493,519
Accumulated other comprehensive loss, net of tax	**(434)**	(352)
Retained earnings	**430,556**	404,360
Treasury stock, at cost	**(114,425)**	(114,425)
Total Watsco, Inc. shareholders' equity	**925,474**	802,790
Noncontrolling interest	**295,849**	198,920
Total shareholders' equity	**1,221,323**	1,001,710
	$1,799,817	$1,268,148

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED UNAUDITED STATEMENTS OF CASH FLOWS
Nine Months Ended September 30, 2012 and 2011
(In thousands)

	2012	2011
Cash flows from operating activities:		
Net income	**$ 133,925**	$ 115,212
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	**11,276**	8,549
Share-based compensation	**5,609**	4,658
Deferred income tax provision	**4,743**	3,333
Non-cash contribution for 401(k) plan	**1,772**	1,718
Provision for doubtful accounts	**396**	1,115
Loss on sale of property and equipment	**179**	409
Excess tax benefits from share-based compensation	**(913)**	(724)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	**(81,793)**	(62,539)
Inventories	**(98,001)**	(96,620)
Accounts payable and other liabilities	**87,696**	(26,805)
Other, net	**(446)**	(7,010)
Net cash provided by (used in) operating activities	**64,443**	(58,704)
Cash flows from investing activities:		
Business acquisitions, net of cash acquired	**(132,359)**	(44,695)
Capital expenditures	**(9,228)**	(9,180)
Proceeds from sale of property and equipment	**404**	422
Net cash used in investing activities	**(141,183)**	(53,453)
Cash flows from financing activities:		
Net proceeds under current revolving credit agreement	**252,271**	—
Net proceeds from issuances of common stock	**3,977**	3,356
Excess tax benefits from share-based compensation	**913**	724
Net proceeds (repayments) of other long-term obligations	**2**	(51)
Return of capital contribution to noncontrolling interest	**—**	(32,000)
Payment of fees related to revolving credit agreement	**(2,072)**	(38)
Distributions to noncontrolling interest	**(16,003)**	(15,824)
Dividends on Common and Class B common stock	**(62,379)**	(54,486)
Net (repayments) proceeds under prior revolving credit agreements	**(70,000)**	105,000
Net cash provided by financing activities	**106,709**	6,681
Effect of foreign exchange rate changes on cash and cash equivalents	**319**	—
Net increase (decrease) in cash and cash equivalents	**30,288**	(105,476)
Cash and cash equivalents at beginning of period	**15,673**	126,498
Cash and cash equivalents at end of period	**$ 45,961**	$ 21,022
Supplemental cash flow information:		
Common stock issued for Carrier Enterprise III	**$ 93,250**	—
Net assets of locations contributed to Carrier Enterprise II	**—**	$ 14,769

See accompanying notes to condensed consolidated unaudited financial statements.

WATSCO, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS
September 30, 2012
(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 September 30, 2012 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 Annual Report on Form 10-K for the year ended December 31, 2011.

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. See Note 6. All significant intercompany balances and transactions have been eliminated.

The results of operations for the quarter and nine months ended September 30, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012. 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.

Foreign Currency Translation and Transactions

Our operations in Mexico consider their functional currency to be the U.S. dollar because the majority of their transactions are denominated in U.S. dollars. Gains or losses resulting from transactions denominated in Mexican pesos are recognized in earnings within selling, general and administrative expenses in our condensed consolidated unaudited statements of income.

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

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.

Accounting Changes

Presentation of Comprehensive Income

In June 2011, the Financial Accounting Standards Board issued guidance that requires companies to present net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. We have elected to present separate condensed consolidated unaudited statements of other comprehensive income, which immediately follow the condensed consolidated unaudited statements of income to our condensed consolidated unaudited financial statements.

Table of Contents

2. EARNINGS PER SHARE

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

	Quarter Ended September 30, 2012	Quarter Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Basic Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$ 41,005**	$ 33,547	**$ 88,575**	$ 77,070
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**2,822**	2,295	**6,119**	5,105
Earnings allocated to Watsco, Inc. shareholders	**$ 38,183**	$ 31,252	**$ 82,456**	$ 71,965
Weighted-average Common and Class B common shares outstanding for basic earnings per share	**32,107,701**	30,694,844	**31,529,296**	30,660,843
Basic earnings per share for Common and Class B common stock	**$ 1.19**	$ 1.02	**$ 2.62**	$ 2.35
Allocation of earnings for Basic:				
Common stock	**$ 34,789**	$ 28,347	**$ 74,992**	$ 65,268
Class B common stock	**3,394**	2,905	**7,464**	6,697
	$ 38,183	$ 31,252	**$ 82,456**	$ 71,965
Diluted Earnings per Share:				
Net income attributable to Watsco, Inc. shareholders	**$ 41,005**	$ 33,547	**$ 88,575**	$ 77,070
Less: distributed and undistributed earnings allocated to non-vested (restricted) common stock	**2,820**	2,293	**6,115**	5,101
Earnings allocated to Watsco, Inc. shareholders	**$ 38,185**	$ 31,254	**$ 82,460**	$ 71,969
Weighted-average Common and Class B common shares outstanding for basic earnings per share	**32,107,701**	30,694,844	**31,529,296**	30,660,843
Effect of dilutive stock options	**60,465**	63,688	**68,242**	80,452
Weighted-average Common and Class B common shares outstanding for diluted earnings per share	**32,168,166**	30,758,532	**31,597,538**	30,741,295
Diluted earnings per share for Common and Class B common stock	**$ 1.19**	$ 1.02	**$ 2.61**	$ 2.34
Anti-dilutive stock options not included in above	**2,283**	132,750	**11,445**	22,322

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 September 30, 2012 and 2011, our outstanding Class B common stock was convertible into 2,854,055 and 2,853,096 shares of our Common stock, respectively.

3. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) consists of the currency translation adjustment associated with the use of local currency by our Canadian operations as its functional currency, changes in the unrealized (loss) gain on available-for-sale securities and the effective portion of a cash flow hedge that matured in October 2011. The tax effects allocated to each component of other comprehensive income (loss) are as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Foreign currency translation adjustment	**$4,731**	—	**$ (109)**	—
Unrealized (loss) gain on available-for-sale securities	**$ 28**	$ (37)	**$ 51**	$ (33)
Income tax (benefit) expense	**13**	(14)	**24**	(13)
Unrealized (loss) gain on available-for-sale securities, net of tax	**$ 15**	$ (23)	**$ 27**	$ (20)
Unrealized gain on derivative instrument	—	$124	—	$ 357
Income tax expense	—	47	—	136
Unrealized gain on derivative instrument, net of tax	—	$ 77	—	$ 221
Other comprehensive (loss) income	**$4,746**	$ 54	**$ (82)**	$ 201

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

Nine Months Ended September 30,	2012	2011
Foreign currency translation adjustment:		
Beginning balance	**$—**	$—
Current period other comprehensive loss	**109**	—
Ending balance	**$109**	$—
Available-for-sale securities:		
Beginning balance	**$352**	$355
Current period other comprehensive income (loss)	**27**	(20)
Ending balance	**$325**	$375
Derivative instrument:		
Beginning balance	**$—**	$238
Current period other comprehensive income	—	221
Ending balance	**$—**	$ 17
Accumulated other comprehensive loss, net of tax	**$434**	$392

4. DERIVATIVE FINANCIAL INSTRUMENTS

On a regular basis, we use certain derivatives as economic hedges of 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 immediately recognized in earnings. During the quarter and nine months ended September 30, 2012, we entered into foreign currency forward contracts to offset the earnings impact that foreign currency exchange rate fluctuations have on certain monetary liabilities that are denominated in nonfunctional currencies. The changes in fair value of these foreign currency forward contracts were $14 and $233 for the quarter and nine months ended September 30, 2012, respectively, and are included in selling, general and administrative expenses in our condensed consolidated unaudited statements of income. The total notional value of our foreign currency exchange contracts as of September 30, 2012 was $33,960, and such contracts have varying terms expiring through December 2012. See Note 5.

We were party to an interest rate swap agreement with a notional amount of $10,000 that matured in October 2011 and had been designated as a cash flow hedge. The swap effectively exchanged the variable rate of 30-day LIBOR to a fixed interest rate of 5.07%. For the quarter and nine months ended September 30, 2011, the hedging relationship was determined to be highly effective in achieving offsetting changes in cash flows.

Table of Contents

5. FAIR VALUE MEASUREMENTS

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

Description	Fair Value at September 30, 2012	Fair Value Measurements at September 30, 2012 Using		
		Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	**$ 214**	**$ 214**	—	—
Liabilities:				
Derivative financial instruments	**$ 233**	—	**$ 233**	—

Description	Fair Value at December 31, 2011	Fair Value Measurements at December 31, 2011 Using		
		Level 1	Level 2	Level 3
Assets:				
Available-for-sale securities	$ 163	$ 163	—	—

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 nine months ended September 30, 2012.

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. Since its inception, we had owned 60% of the joint venture and Carrier had owned 40%. We had an option to purchase an additional 10% ownership interest in Carrier Enterprise I, which was exercisable beginning 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 $51,880. 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 composed of the combination of two transactions. On April 29, 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. On July 29, 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.

Carrier Enterprise III

On April 27, 2012, we completed the formation of a joint venture 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. The newly formed joint venture, Carrier Enterprise Canada, L.P. (“Carrier Enterprise III”), operates 35 locations throughout all of the provinces and territories in Canada. In the formation of the joint venture, UTC Canada contributed its Canadian distribution business and retained a 40% noncontrolling interest in Carrier Enterprise III. Total consideration paid by us for our 60% controlling interest in Carrier Enterprise III included cash consideration of $82,158 and the issuance to UTC Canada of 1,250,000 shares of Common stock having a fair value of $93,250. The final purchase price was subject to a $1,669 working capital adjustment pursuant to the asset purchase agreement that we entered into with UTC Canada.

Based on our preliminary valuation, we anticipate that the purchase price will result in the recognition of $216,463 in goodwill and intangibles. The preliminary valuation of fair value is based on the best information available as of the date of this filing and incorporates management's assumptions about expected future cash flows and contemplates other valuation techniques. Future cash flows can be affected by changes in the industry, a declining economic environment or market conditions, among other things. Although management believes that the estimates are reasonable, an adjustment to the future cash flows could materially impact the valuation and our consolidated results of operations or financial position. For Canadian income tax purposes, seventy-five percent of the tax basis of the acquired goodwill is amortized at a rate of 7% annually on a declining balance basis.

The preliminary purchase price allocation is based upon a purchase price of $173,739 which represents the fair value of our 60% controlling interest in Carrier Enterprise III. The table below presents the allocation of the total consideration to tangible and intangible assets acquired, liabilities assumed and the noncontrolling interest from the acquisition of our 60% controlling interest in Carrier Enterprise III based on the respective fair values as of April 27, 2012:

Cash	$ 10
Accounts receivable	46,718
Inventories	55,024
Other current assets	481
Property and equipment	2,517
Goodwill and intangible assets	216,463
Other assets	978
Accounts payable and accrued expenses	(44,208)
Noncontrolling interest	(104,244)
Total preliminary purchase price	**$ 173,739**

The fair value of the noncontrolling interest was determined by applying a pro-rata value of the total invested capital adjusted for a discount for lack of control that market participants would consider when estimating the fair value of the noncontrolling interest.

The unaudited pro forma financial information, combining our results of operations with the operations of Carrier Enterprise II and Carrier Enterprise III as if the joint ventures had been consummated on January 1, 2011, is as follows:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	**$1,020,859**	$1,013,864	**$2,761,081**	$2,677,139
Net income	**59,531**	58,553	**133,052**	133,490
Less: net income attributable to noncontrolling interest	**18,526**	22,063	**45,236**	49,418
Net income attributable to Watsco, Inc.	**$ 41,005**	$ 36,490	**$ 87,816**	$ 84,072
Diluted earnings per share for Common and Class B common stock	**$ 1.19**	$ 1.06	**$ 2.59**	$ 2.46

This unaudited pro forma financial information is presented for informational purposes only. The unaudited pro forma financial information from the beginning of the periods presented until the respective acquisition dates of the above-described Canadian, Northeast U.S. and Mexican operations includes adjustments to record income taxes related to our portion of Carrier Enterprise II and 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 interests. This unaudited pro forma financial information does not include adjustments to add or remove certain corporate expenses of Carrier Enterprise II and 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 dates. This unaudited pro forma financial information may 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 II and Carrier Enterprise III as of the beginning of the periods presented.

7. DEBT

On April 27, 2012, we entered into an unsecured, five-year $500,000 syndicated revolving credit agreement, which replaced in its entirety both our maturing five-year $300,000 revolving credit agreement and Carrier Enterprise I's three-year $125,000 secured revolving credit agreement. Proceeds from the new facility were used to repay approximately $72,000 outstanding under the prior facilities and $82,000 for the acquisition of Carrier Enterprise III. Additional proceeds may be used for, among other things, funding seasonal working capital needs and other general corporate purposes, including acquisitions, dividends, stock repurchases and issuances of letters of credit. Included in the facility are $65,000 swingline subfacilities, a $50,000 letter of credit subfacility and a $75,000 multicurrency borrowing sublimit. Borrowings bear interest at either LIBOR-based rates plus a spread which ranges from 100 to 275 basis-points (LIBOR plus 137.5 basis-points at September 30, 2012), depending upon our ratio of total debt to EBITDA, or on rates based on the higher of the Prime rate or the Federal Funds rate, in each case plus a spread which ranges from 0 to 175 basis-points (37.5 basis-points at September 30, 2012), depending upon our ratio of total debt to EBITDA. We pay a variable commitment fee on the unused portion of the commitment, ranging from 12.5 to 40 basis-points (17.5 basis-points at September 30, 2012). At September 30, 2012, $202,180 was outstanding under the revolving credit agreement. The credit agreement matures in April 2017. 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, 2012.

8. SHAREHOLDERS' EQUITY

Common Stock Dividends

Cash dividends of $0.62 per share, $0.57 per share, $1.86 per share and $1.66 per share of Common and Class B common stock were paid during the quarters and nine months ended September 30, 2012 and 2011, respectively.

Non-Vested (Restricted) Stock

During the quarters ended September 30, 2012 and 2011, we granted 53,000 and 15,000 shares of non-vested (restricted) stock, respectively. During the nine months ended September 30, 2012 and 2011, we granted 111,301 and 429,602 shares of non-vested (restricted) stock, respectively. During the nine months ended September 30, 2011, 2,527 shares of Common stock with an aggregate fair market value of $180, were delivered to us 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.

Stock Options

During the quarters ended September 30, 2012 and 2011, 18,250 and 3,450, respectively, of stock options were exercised for Common stock. During the nine months ended September 30, 2012 and 2011, 109,084 and 75,750, respectively, of stock options were exercised for Common stock. Cash received from Common stock issued upon the exercise of stock options during the quarters and nine months ended September 30, 2012 and 2011, was $571, $80, $3,380 and $2,715, respectively. During the quarter ended September 30, 2012, 3,592 shares of Common stock with an aggregate fair market value of $276 were delivered to us as payment in lieu of cash for stock option exercises and related tax withholdings. During the nine months ended September 30, 2012, 23,159 shares of Common stock with an aggregate fair market value of $1,725 were delivered to us as payment in lieu of cash for stock option exercises and related tax withholdings. These shares were retired upon delivery.

Employee Stock Purchase Plan

During the quarters ended September 30, 2012 and 2011, 3,126 and 2,739 shares of Common stock were issued under our employee stock purchase plan, respectively, for which we received net proceeds of $217 and $168, respectively. During the nine months ended September 30, 2012 and 2011, 8,720 and 10,131 shares of Common stock were issued under our employee stock purchase plan, respectively, for which we received net proceeds of $597 and $641, respectively.

401(k) Plan

During the nine months ended September 30, 2012 and 2011, 26,991 and 27,240 shares of Common stock were issued to our profit sharing retirement plan, respectively, representing the discretionary matching contribution of $1,772 and $1,718, 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, 2011	$198,920
Foreign currency translation adjustment	(103)
Distributions to noncontrolling interest	(9,373)
Decrease in noncontrolling interest in Carrier Enterprise I	(43,189)
Net income attributable to noncontrolling interest	45,350
Fair value of noncontrolling interest in Carrier Enterprise III	104,244
Noncontrolling interest at September 30, 2012	**$295,849**

9. 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 or 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 $5,073 and $4,631 at September 30, 2012 and December 31, 2011, respectively, were established related to such insurance programs and are included in accrued expenses and other current liabilities in our condensed consolidated balance sheets.

10. RELATED PARTY TRANSACTIONS

Purchases from Carrier and its affiliates comprised 57%, 51%, 57% and 47% of all purchases made during the quarters and nine months ended September 30, 2012 and 2011, respectively. At September 30, 2012 and December 31, 2011, approximately $90,000 and $41,000, 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, 2012 and 2011 include $10,466, $5,685, $27,314 and $17,482, 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 performs 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 $0, $148, $807 and $296, respectively, for the quarters and nine months ended September 30, 2012 and 2011, and are included in selling, general and administrative expenses in our condensed consolidated unaudited statements of income. At December 31, 2011, $941 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. No amount related to these TSAs was payable to Carrier at September 30, 2012.

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 UTC Canada to Carrier Enterprise III under the other TSA.

11. SUBSEQUENT EVENT

On October 1, 2012, our Board of Directors declared a special dividend of $5.00 per share of Common and Class B common stock and a regular quarterly cash dividend of $0.62 per share of Common and Class B common stock that was paid on October 31, 2012 to shareholders of record as of October 15, 2012.

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

Information About 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; 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 substantially 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 the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2011 under the headings "Business Risk Factors" and "General Risk Factors." 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 Annual Report on Form 10-K for the year ended December 31, 2011.

Company Overview

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. At September 30, 2012, we operated from 579 locations in 38 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 with UTC Canada Corporation ("UTC Canada"), an affiliate of Carrier, which we refer to as Carrier Enterprise III. Carrier contributed 35 of its company-owned locations in Canada to Carrier Enterprise III. We have a 60% controlling interest in Carrier Enterprise III, and 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 Annual Report on Form 10-K for the year ended December 31, 2011 as filed on February 29, 2012. We believe that there have been no significant changes during the quarter or nine months ended September 30, 2012 to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2011.

Items Affecting Comparability Between Periods

Accounting Changes

Refer to Note 1 to our condensed consolidated unaudited financial statements included in this Quarterly Report on Form 10-Q for a discussion of the impact of changes in 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 and nine months ended September 30, 2012 and 2011:

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**76.2**	76.0	**76.3**	75.7
Gross profit	**23.8**	24.0	**23.7**	24.3
Selling, general and administrative expenses	**15.4**	15.9	**16.5**	17.2
Operating income	**8.4**	8.1	**7.2**	7.1
Interest expense, net	**0.1**	0.1	**0.1**	0.1
Income before income taxes	**8.3**	8.0	**7.1**	7.0
Income taxes	**2.5**	2.3	**2.1**	2.1
Net income	**5.8**	5.7	**5.0**	4.9
Less: net income attributable to noncontrolling interest	**1.8**	2.0	**1.7**	1.6
Net income attributable to Watsco, Inc.	**4.0%**	3.7%	**3.3%**	3.3%

Table of Contents

The following narratives include the results of operations for businesses acquired during 2012 and 2011. 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 II and Carrier Enterprise III. The following narratives also reflect our acquisition of an additional 10% ownership interest in Carrier Enterprise I effective July 2, 2012.

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 September 30, 2012 and 2011, 62 and 64 locations, respectively, were excluded from “same-store basis” information. The table below summarizes the changes in our locations for the 12 months ended September 30, 2012:

	Number of Locations
September 30, 2011	539
Opened	4
Closed	(1)
December 31, 2011	542
Acquired	35
Opened	12
Closed	(10)
September 30, 2012	**579**

Third Quarter 2012 Compared to Third Quarter 2011

Revenues

Revenues for the quarter ended September 30, 2012 increased $106.8 million, or 12%, compared to the same period in 2011, including $100.3 million attributable to the 42 new Carrier Enterprise II and III locations acquired in 2012 and 2011, and $2.9 million from other locations opened during the preceding 12 months, partially offset by $1.7 million from closed locations. On a same-store basis, revenues increased $5.3 million, or 1%, as compared to the same period in 2011, reflecting a 1% increase in sales of HVAC equipment, a 4% decrease in sales of other HVAC products and a 16% increase in sales of commercial refrigeration products. The increase in same-store revenues is primarily due to increased demand for the replacement of residential HVAC equipment.

Gross Profit

Gross profit for the quarter ended September 30, 2012 increased $23.1 million, or 11%, compared to the same period in 2011, primarily as a result of increased revenues. Gross profit margin for the quarter ended September 30, 2012 declined 20 basis-points to 23.8% versus 24.0% for the same period in 2011. On a same-store basis, gross profit margin declined 50 basis-points to 23.5% versus 24.0% for the same period in 2011, primarily due to a shift in sales mix toward HVAC equipment, which generate a lower gross profit margin than non-equipment products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the quarter ended September 30, 2012 increased $11.7 million, or 8%, compared to the same period in 2011, primarily as a result of increased revenues. Selling, general and administrative expenses as a percent of revenues for the quarter ended September 30, 2012 decreased to 15.4% from 15.9% for the same period in 2011. 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 2011 and a decrease in the provision for doubtful accounts. For the quarters ended September 30, 2012 and 2011, selling, general and administrative expenses include $0.4 million and $0.3 million, respectively, of acquisition-related costs. On a same-store basis, selling, general and administrative expenses decreased 4% as compared to the same period in 2011.

Interest Expense, Net

Net interest expense for the quarter ended September 30, 2012 decreased $0.2 million, or 12%, compared to the same period in 2011, primarily due to a lower effective interest rate partially offset by an increase in average outstanding borrowings during 2012.

Income Taxes

Income taxes increased to $25.0 million for the quarter ended September 30, 2012 as compared to $21.1 million for the quarter ended September 30, 2011 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 37.0% and 38.0% for the quarters ended September 30, 2012 and 2011, respectively. The decrease is primarily due to lower effective tax rates for income generated by our foreign subsidiaries and certain non-recurring tax benefits realized in 2012.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco for the quarter ended September 30, 2012 increased $7.5 million, or 22%, compared to the same period in 2011. The increase was primarily driven by higher revenues, 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.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Revenues

Revenues for the nine months ended September 30, 2012 increased $334.2 million, or 14%, compared to the same period in 2011, including $274.2 million attributable to the 70 new Carrier Enterprise II and III locations and $8.5 million from other locations opened during the preceding 12 months, offset by $9.8 million from closed locations. On a same-store basis, revenues increased $61.3 million, or 3%, as compared to the same period in 2011. Revenues reflect a 5% increase in sales of HVAC equipment, a 4% decrease in sales of other HVAC products and an 18% increase in sales of commercial refrigeration products. The increase in same-store revenues is primarily due to strong demand for the replacement of residential and commercial HVAC equipment.

Gross Profit

Gross profit for the nine months ended September 30, 2012 increased $64.0 million, or 11%, compared to the same period in 2011, primarily as a result of increased revenues. Gross profit margin for the nine months ended September 30, 2012 declined 60 basis-points to 23.7% versus 24.3% for the same period in 2011. On a same-store basis, gross profit margin declined 70 basis-points to 23.6% versus 24.3% for the same period in 2011, 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, 2012 increased $39.1 million, or 10%, compared to the same period in 2011, primarily as a result of increased revenues. Selling, general and administrative expenses as a percent of revenues for the nine months ended September 30, 2012 decreased to 16.5% from 17.2% for the same period in 2011. 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 2011 and a decrease in the provision for doubtful accounts. For both the nine months ended September 30, 2012 and 2011, selling, general and administrative expenses include $1.1 million of acquisition-related costs. On a same-store basis, selling, general, and administrative expenses decreased 2% as compared to 2011.

Interest Expense, Net

Net interest expense for the nine months ended September 30, 2012 increased $0.3 million, or 8%, compared to the same period in 2011, primarily as a result of an increase in average outstanding borrowings partially offset by a lower effective interest rate in 2012.

Income Taxes

Income taxes increased to $54.1 million for the nine months ended September 30, 2012 as compared to $48.2 million for the nine months ended September 30, 2011 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 37.0% and 38.0% for the nine months ended September 30, 2012 and 2011, respectively. The decrease is primarily due to lower effective tax rates for income generated by our foreign subsidiaries and certain non-recurring tax benefits realized in 2012.

Net Income Attributable to Watsco, Inc.

Net income attributable to Watsco for the nine months ended September 30, 2012 increased $11.5 million, or 15%, compared to the same period in 2011. The increase was primarily driven by higher revenues, 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.

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 additional borrowing capacity (subject to certain restrictions) under our revolving credit agreement to fund seasonal working capital needs, including our anticipated dividend payments, capital expenditures and funds necessary for business acquisitions, and to support 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, 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 $812.8 million at September 30, 2012 from $605.1 million at December 31, 2011, reflecting the 35 new locations added by Carrier Enterprise III in 2012, which in aggregate added $73.3 million of working capital. Excluding these new locations, working capital increased to $739.5 million, reflecting higher levels of accounts receivable and inventories, primarily due to the seasonality of our business.

Cash Flows

The following table summarizes our cash flow activity for the nine months ended September 30, 2012 and 2011:

	2012	2011	Change
Cash flows provided by (used in) operating activities	**$ 64.4**	$ (58.7)	$ 123.1
Cash flows used in investing activities	**$(141.2)**	$ (53.5)	$ (87.7)
Cash flows provided by financing activities	**$ 106.7**	$ 6.7	$ 100.0

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

Operating Activities

The increase in net cash provided by operating activities was principally attributable to changes in operating assets and liabilities, which were primarily composed of higher levels of accounts payable and other liabilities due to approximately $70.0 million in incremental vendor payments from one-time changes in payment terms in 2011, partially offset by higher accounts receivable driven by increased sales volume in 2012.

Investing Activities

The increase in net cash used in investing activities is due to the purchase of our 60% controlling interest in Carrier Enterprise III for cash consideration of $80.5 million and the exercise of our option to acquire an additional 10% ownership interest in Carrier Enterprise I for $51.9 million in 2012.

Financing Activities

The increase in net cash provided by financing activities was primarily attributable to higher net borrowings under our revolving credit agreement and a non-recurring $32.0 million return of capital to the noncontrolling interest in 2011, partially offset by an increase in dividends paid in 2012.

Revolving Credit Agreement

On April 27, 2012, we entered into an unsecured, five-year $500.0 million syndicated revolving credit agreement, which replaced in its entirety both our maturing five-year $300.0 million revolving credit agreement and Carrier Enterprise I's three-year $125.0 million secured revolving credit agreement. Proceeds from the new facility were used to repay approximately $72.0 million outstanding under the prior facilities and $82.0 million for the acquisition of Carrier Enterprise III. Additional proceeds may be used for, among other things, funding seasonal working capital needs and other general corporate purposes, including acquisitions, dividends, stock repurchases and issuances of letters of credit. Included in the facility are $65.0 million swingline subfacilities, a $50.0 million letter of credit subfacility and a $75.0 million multicurrency borrowing sublimit. Borrowings bear interest at either LIBOR-based rates plus a spread which ranges from 100 to 275 basis-points (LIBOR plus 137.5 basis-points at September 30, 2012), depending upon our ratio of total debt to EBITDA, or on rates based on the higher of the Prime rate or the Federal Funds rate, in each case plus a spread which ranges from 0 to 175 basis-points (37.5 basis-points at September 30, 2012), depending upon our ratio of total debt to EBITDA. We pay a variable commitment fee on the unused portion of the commitment, ranging from 12.5 to 40 basis-points (17.5 basis-points at September 30, 2012). At September 30, 2012, $202.2 million was outstanding under the revolving credit agreement. The credit agreement matures in April 2017. 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, 2012.

Acquisitions

On April 27, 2012, we completed the formation of a joint venture with UTC Canada to distribute Carrier, Bryant and Payne branded residential, light-commercial and commercial applied HVAC products in Canada. The newly formed joint venture, Carrier Enterprise III, operates 35 locations throughout all of the provinces and territories in Canada. In the formation of the joint venture, UTC Canada contributed its Canadian distribution business and retained a 40% noncontrolling interest in Carrier Enterprise III. Total consideration paid by us for our 60% controlling interest in Carrier Enterprise III included cash consideration of $80.5 million and the issuance to UTC Canada of 1,250,000 shares of Common stock having a fair value of $93.3 million.

On July 2, 2012, we exercised our option to acquire an additional 10% ownership interest in Carrier Enterprise I for cash consideration of $51.9 million, following which we have a 70% controlling interest in Carrier Enterprise I.

We continually evaluate other potential acquisitions and/or joint ventures and 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

Cash dividends of $1.86 per share and $1.66 per share of Common and Class B common stock were paid during the nine months ended September 30, 2012 and 2011, respectively. On October 1, 2012, the Board of Directors declared a special dividend of $5.00 per share of Common and Class B common stock and a regular quarterly cash dividend of $0.62 per share of Common and Class B common stock that was paid on October 31, 2012 to shareholders of record as of October 15, 2012. 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, restrictions under our revolving credit agreement, 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 September 30, 2012 or 2011. 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. The repurchase of up to the remaining 1,129,087 shares authorized for repurchase is subject to certain restrictions included in our revolving credit agreement.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business we are exposed to fluctuations in foreign currency exchange rates and interest rates. To manage certain of these exposures, we use derivative financial instruments, including forward contracts and swaps. We do not use derivative financial instruments for trading purposes.

Exposure to market risk for changes in foreign currency exchange rates relates primarily to our foreign operations' buying in currencies other than local currencies. The principal foreign currency exchange rates to which we are exposed are the Canadian dollar and Mexican peso. We manage our exposure to foreign currency exchange rate risk by using forward currency option contracts to hedge foreign currency exposure. These instruments are not designated as hedging instruments. The total notional value of foreign currency forward contracts as of September 30, 2012 was $34.0 million, and such contracts have varying terms expiring through December 2012.

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

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 September 30, 2012, 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 II in 2011 or the 35 locations added by Carrier Enterprise III in 2012, which collectively represented approximately 27% of our total consolidated assets at September 30, 2012 and approximately 15% of our consolidated revenues for the nine months ended September 30, 2012. From the respective acquisition dates to September 30, 2012, the processes and systems of Carrier Enterprise II and 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

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 or 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.

ITEM 1A. RISK FACTORS

Information about risk factors for the quarter ended September 30, 2012 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, 2011.

ITEM 6. EXHIBITS

3.1	Amended and Restated Bylaws effective August 22, 2012, filed as Exhibit 3.1 to the Company’s Current Report on Form 8-K, filed with the SEC on August 28, 2012 and incorporated herein by reference.
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.

Table of Contents

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.

***** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Table of Contents

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)

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

November 8, 2012

[Table of Contents](#)

INDEX TO EXHIBITS

Exhibit No.	Exhibit Description
3.1	Amended and Restated Bylaws effective August 22, 2012, filed as Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the SEC on August 28, 2012 and incorporated herein by reference.
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.
* XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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 8, 2012

/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 8, 2012

/s/ Barry S. Logan

Barry S. Logan
Senior 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 8, 2012

/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, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Albert H. Nahmad, as Chief Executive Officer of Watsco, Barry S. Logan, as Senior Vice President of Watsco and Ana M. Menendez, as Chief Financial Officer of Watsco, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

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

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

/s/ Albert H. Nahmad
Albert H. Nahmad
Chief Executive Officer
November 8, 2012

/s/ Barry S. Logan
Barry S. Logan
Senior Vice President
November 8, 2012

/s/ Ana M. Menendez
Ana M. Menendez
Chief Financial Officer
November 8, 2012

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.